FINAL TRANSCRIPT

CCBNStreetEvents℠

Event Transcript

MYG - Q3 2003 Maytag Earnings Conference Call

Event Date/Time: Oct. 16. 2003 / 9:30AM ET
Event Duration: 1 hr 12 min

OVERVIEW

MYG reported 3Q03 EPS of $0.46. It expects 4Q03 EPS to be in the range of $0.40-0.45 a share. For the full year 2003, MYG expects earnings to be in the range of $1.62-1.67 a share. Q&A Focus: Floor care business, Vacuum cleaner, Hoover, pricing mix, capacity, new product launches, laundry products, and guidance.

Δπ EXHIBIT 4
Deponent HAKE
Date 12-8-06 Rptr. KK
WWW.DEPOBOOK.COM

FINAL TRANSCRIPT

MYG - Q3 2003 Maytag Earnings Conference Call

CORPORATE PARTICIPANTS

Ralph Hake
Maytag - Chairman and Chief Executive Officer

George Moore
Maytag - Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Michael Regan
Credit Suisse First Boston - Analyst

Jeff Sprague
Salomon Smith Barney - Analyst

James Harmon
Midwest Research - Analyst

David McGregor
Longbow Research - Analyst

Sam Darkatsh
Raymond James - Analyst

Laura Champine
Morgan Keegan - Analyst

Dove Sacks
Centurion - Analyst

PRESENTATION

Operator

Welcome to the Maytag Corporation third quarter 2003 Sales and Earnings Conference Call. Maytag's Chairman and Chief Executive Officer Ralph Hake and Chief Financial Officer George Moore will provide financial results and share their perspectives on the quarter. During the presentation all participants will be in a listen-only mode. Afterwards you will be invited to participate in a question-and-answer session. At that time if you have a question you will need to press the 1 followed by the 4 on your push-button phone. As a reminder, this conference is being recorded Thursday, October 16, 2003.

Additionally you are reminded today's call may include forward-looking statements, so please refer to the cautions that are published in Maytag's financial statements and news releases. A reconciliation of the difference between any non-GAAP financial measure used in this presentation to the most comparable GAAP measure, can be found at Maytag's website at www.maytagcorp.com, under Corporate News Center, CEO Presentations. I would now like to turn the conference over to Mr. Ralph Hake, Chairman and Chief Executive Officer of Maytag. Please go ahead, sir.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Good morning and thank you for joining us today. I appreciate your interest in Maytag. Before I provide my overview of the quarter, I will ask our CFO, George Moore, to summarize our financial performance.

George Moore - *Maytag - Chief Financial Officer*

Thank you, Ralph, and good morning everyone. My objective this morning is to provide you with perspective on performance as reflected in the financial statements of the company and press release. This will include drivers, change in profitability, both year-over-year and sequentially as well as comments on the third quarter balance sheet and our 2003 cash flow performance.

As noted in our press release our third quarter reported earnings per share were 46 cents. Included in our quarterly results were 8.8 million or 11 cents per share of restructuring charges. These restructuring charges are for accelerated depreciation and anticipated severance cost associated with the Galesburg refrigeration plant closing. In addition we recognized 1.2 million or 2 cents per share net gain in discontinued operations. Within this amount we recorded a gain from a collection of notes receivable that were associate with the sale to Middleview Corporation in December 2001. Largely offsetting this amount was an additional loss recorded on our anticipated sale of our joint venture in China. In summary the 2003 restructuring charge of discontinuing operations amounted to 10 cents per share in the third quarter.

In the prior year, our third quarter report earnings per share were 77 cents. This amount included an after-tax 5.5 million, or 7 cents per share gain on the sale of a distribution center. Therefore on a comparable basis, earnings per share on third quarter of 2003 of 56 cents compares to 71 cents in the prior year. The 56 cents per share is in line with our expectations.

Beginning with the income statement, let us first review our year-over-year third quarter performance. Consolidated sales increased 4.6% from prior year. This growth was driven by a 4.8% increase in home appliance sales. As you may know our home appliance sales are primarily comprised of major appliances, floor care products, and international export sales.

In major appliances we realized double digit increases in revenues, driven by increased market share in an industry that grew 10% during the quarter. Our major appliance success was based on successful new product introductions, primarily in

laundry and cooking as well as our distribution initiatives. Our performance was also helped marginally by favorable product mix.

In floor care, our revenues were down approximately 20%. This decrease is consistent with the second quarter and driven by lower unit shipments and lower average selling prices from price reductions and unfavorable mix issues. During July and August the floor care industry grew at 14% with growth largely occurring at the low end.

For international, our export sales increased during the quarter driven from foreign currency rates compared to prior year.

In our commercial segment comprised of vending equipment and commercial cooking products, revenues were flat from the prior year. This performance was achieved despite a decrease in unit shipments in the vending industry, vending equipment industry.

Although the revenues increased during the quarter, operating profit decreased in the third quarter compared to the prior year. The decrease was basically in line with our expectations. Compared to the prior year, we continued to face higher pension and retiree medical costs and certain increases in raw material costs, however the primary driver of the year-over-year decrease is the lower volume and pricing within floor care. This was somewhat offset by a higher volume in major appliances. During the third quarter, profitability was also impacted by our planned increase in national advertising, which was up $6 million from the prior year. From the positive side, we realized overall volume savings from our salary headcount reductions and other cost savings initiatives.

The net of these year-over-year items led to the following margin comparisons in the third quarter compared to prior year. First, profit decreasing from 18.1% to 20.2% in the prior year primarily due to lower pricing and volume in floor care. SG&A expenses increasing 12% from 11.6% in the prior year largely due to increased investment in national advertising, and operating margins decreasing to 6.1% from 8.6% in the prior year. These comparisons exclude the current year restructuring charges.

In addition to providing you with performance drivers year-over-year let me comment on the performance sequentially compared to the second quarter.

Consolidated revenue increased 5% from the second quarter. In home appliances, revenues increased 6.3%, driven primarily by our growth in major appliance units. The major appliance growth was due to industry unit growth and realizing gains in overall market share as our shipments outpaced the industry growth rate.

In floor care our sequential revenues did increase high single digits driven primarily by industry unit growth. Revenues were negatively impacted, however, by a loss in market share as average selling prices remained flat from the second quarter.

In commercial appliances our sequential revenues decreased 13% in line with our expectations for the typical seasonality in the vending equipment business.

Gross profit was 3% higher than second quarter while operating income was 6% lower than second quarter. Within gross profit we benefited from higher sales, more favorable trends in material costs, however this was offset by approximately 12 million in lower factory absorption resulting from our planned factory shut-downs and reductions in inventory. In addition, we incurred start-up costs from the new product introductions.

SG&A expenses increased 9% sequentially due to our planned increase in advertising during the third quarter. National advertising was up $13 million from the second quarter. These expenses were partially offset by savings from our SG&A salaried work force reduction.

In terms of items below operating income, let me make the following comments. Interest expense declined 13% from the prior year due to lower borrowing levels and lower interest rates. The gain in other net during the third quarter was due to currency transaction gains and to interest income related to the notes receivable that were associated with the sale of Logic to Middleview Corporation. Finally, the effective tax rate was 33% compared with 34% in the prior year.

Now let's discuss the third quarter balance sheet and our 2003 cash flow performance.

Beginning with the balance sheet and specifically our working capital levels, accounts receivable were up $23 million from September 2002 and up 39 million from June 2003 due to higher sales during the quarter as day sales outstanding slightly decreased from the prior year. Compared with year end, accounts receivable are up $118 million due to higher sales in September compared to December.

Inventories were down 22 million with the prior year and down sequentially 39 million from June. Our inventory decrease during the quarter had a positive impact on quarterly cash flow.

We continue to make progress in accounts payable. Accounts payable were up $93 million from the prior year due to our continued focus on terms management.

Overall working capital efficiency has improved from prior year. Working capital as a percent of sales was 17% of sales compared to 19% of sales in the prior year.

We have and will continue to tighten our focus on asset utilization. Part of that focus is a review of projects that are in process. This review will be substantially complete in the fourth quarter and may result in certain asset write downs or impairments.

Looking at our cash flow performance, third quarter cash flow from operations was $130 million compared to 34 million in the prior year. The difference is primarily attributable to working capital as in the current quarter working capital was $40 million source of cash compared to the prior year when working capital was a $28 million use of cash. As a result of our strong quarterly cash flow performance we reduced debt $92 million during the third quarter. Year to date cash flow from operations was 236 million compared to 177 million in the prior year.

For pension contributions, we contributed $70 million during the third quarter which took us to our 2003 year to date target of 135 million. In the prior year we also contributed 135 million during the first nine months. As we move into 2004 we expect to make sizable voluntary pension contributions to close the gap on our underfunded position. Our initial view for 2004 is plans for pension contributions of approximately 220 million. Given the decrease in interest rates and the resulting lower discount rate used for pension and retiree medical we will again be facing earnings per share headwind in 2004 for these expenses, likely in the range of 15 cents per share after a 25 cents per share head wind in 2003.

Capital expenditures were 130 million for the first nine months compared to 157 million in the prior year. Our forecast for 2003 capital expenditures is expected to be in the range of 200 to 220 million, depending on the cash timing related to a number of significant projects currently being worked on to support our new product introductions.

Total debt has decreased 85 million year to date and we are well on track to meet our 2003 debt reduction goal of $100 million. Similar to prior year any excess cash flow generated in the fourth quarter 2003 above our $100 million debt reduction goal will be targeted toward the pension plan, and will a head start on the 2004, 220 million contribution.

With this overview of the quarterly financial statements, Ralph will provide some additional perspective of our financial performance and business strategy. Ralph?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Thank you, George, for that overview.

As you've heard, our results were in line with our expectations. Performance in major appliances was very strong, with sales up 13% in profits, excluding restructuring, up more than twice that amount, as our new product introductions began to reach the marketplace.

The appliance industry was also a very positive contributing factor as unit shipments were very strong, up 13% for the month of September resulting in about a 3% increase year to date. We did experience availability issues and were short-term capacity constrained in cooking and certain laundry segments as the industry growth was substantially more than we had expected.

The floor care industry experienced a 19% jump in unit shipments in August, with the largest percentage of that growth was in the value segments. Power floor care business continues to be challenged with only modest improvement in unit sales over the second quarter. I will discuss this in more depth in a few minutes.

In addition to the profit improvements in major appliances we saw improved performance in Maytag international and Maytag services.

In the commercial segment Dixie-Narco held its own despite a vending industry that continues to be down about 15% this year. While sales in the commercial segment were flat year-over-year profitability was impact by Jade's launch of its new residential cooking product.

While George discussed cash flow I want to re-emphasize our strength in cash generation so far this year which has allowed us to already reduce our debt by $85 million. We will clearly meet our annual reduction goal of $100 million and very likely increase the voluntary funding of our pension plan as well.

Now let's talk -- take a look at Maytag's major appliance business, which had record revenues, up about 13%, and unit shipments up 14.5%. In the second quarter reported our appliance business did not gain share. In the third quarter, however, we have been out-selling the major appliance industry

gaining back some market share. This is due largely to the refurbishment of our product platforms with new, innovative offerings. Our market share was positive in laundry, cooking, dishwashers, and down only marginally in refrigeration.

Let's look at the industry shipments in more detail. As you may recall total industry shipments in the first quarter were 9.1 million units, and in the second quarter the industry shipments increased to 9.8 million units. In the third quarter the industry has experienced a robust quarter with unit shipments expanding to 10.4 million units, a 10% increase from the third quarter in 2002. We did not anticipate the industry being this strong, but our sense now is that tax rebates, very strong promotions in advertising, contributed to this industry gain. Also, wholesale was probably somewhat stronger than retail.

For the fourth quarter, we now expect core five unit shipment to be at about 10 million units, or a 2% increase year-over-year. This is a little better than we had professional forecast but not nearly as strong as the industry has been running.

Remember, last year was a very big fourth quarter. 9.8 million units shipped and up 6.9% over the prior year. So it's a tough compare. If this increase, as we're now forecasting, of 2% occurs in the fourth quarter the full year will then end up being up about 3%.

Sales for Maytag appliances were up year-over-year and our mix was positive. As we continue to grow our unit sales, our innovative new products offer us important movement to higher average selling prices while the trend in the industry is driving prices downward on core and value products.

Let's discuss this category by category.

Our dishwasher category has been robust all year. Fueled by our Maytag and Jenn-Air tall tub dishwashers. I expect Maytag's share improvement to continue in dishwashers with the launch of our new stainless steel interior tall-tub dishwasher scheduled for this fourth quarter.

The strength in our cooking category results from new products that have literally changed our entire lineup this year. This is the year of cooking at Maytag, and all of our cooking product, cook tops, wall ovens, and free-standing ranges are now redesigned with improved cost, quality, and consumer benefits. The success of our new cooking line has been stronger than we anticipated, prompting some availability issues. In response to this demand we have been running overtime production, flexing schedules, expediting shipments and substituting new models to fill orders.

These three platform changes were accomplished at our Cleveland cooking operation and it important to note that in mid-September the same team that launched those products had simultaneously surpassed their all-time safety record logging more than 5.2 million hours without a loss-time accident. This tops a 23-year safety record. In this industry that is an amazing feat under any conditions. We're very proud of the accomplishments and hard work of this group.

Refrigeration category is more challenging for us now. We are continuing to address the situation with our multi-part refrigeration strategy. The top freezer platform remains a price-driven, commodity business throughout the appliance industry.

As we have discussed previously we are outsourcing the manufacturing of top freezers to Daiwoo, improving our competitive position in this category. The Daiwoo built 15-cubic foot top freezer will begin production this quarter and start selling in January.

The side by side refrigeration category is becoming deflationary also as prices decline rapidly. We are currently implementing our manufacturing strategy which includes a new redesigned wide by side model now being moved from Galesburg to our Amana Iowa plant. Construction is also proceeding on schedule at our new refrigeration facility in Renosa, Mexico.

In the bottom freezer platform category we are experiencing strong sales in the higher end segments. The introduction of the Kenmoore Elite three- door refrigerator is clearly an example of what's driving profitable growth through innovation in this category.

As I mentioned at the beginning of this year we're on track to introduce new product lines in every category through next year. We have now completed dishwashers and cooking and we're moving into laundry and refrigeration.

A number of you have attended our introduction of our new Neptune drying center in September. We're seeing a great deal of excitement around this new product platform. These products are scheduled to begin shipping at the end of this quarter.

The Neptune D.C., as we call it, bears a traditional tumble dryer with a revolutionary upper drying cabinet. Like the Neptune washer before, Maytag has create an innovative high quality

product that changes how consumers approach everyday laundry tasks. This product epitomizes our strategy and further extends our reach in the laundry industry.

Historically, the dryer industry has been driven by washer sales. We feel quite strongly that the Neptune D.C. can change that as this product will entice consumers to buy the dryer and the washer that matches it. We also believe it's a product that consumers believe they simply must have. The Neptune D.C. sells at the high end for about $1200 and will go into production in December.

The introduction of the Neptune D.C. closely coincides with the sales of the Neptune TL, a top loading high efficiency version of the original Neptune washer introduced in 1997. Our research confirms that more than half of all customers still prefer a top-loading washer versus a front-loading configuration. The Maytag Neptune TL meets this consumer need and will be available for sale to consumers in January.

Stay tuned, there are more new product to come in the laundry category about mid-2004.

On another note, we're proud of the energy efficiency of all of our appliances, and we have been moving this feature beyond the laundry platform. We are the 2003 Energy Star partner of the year, a designation awarded by the EPA and the Department of Energy, and our consumers are telling us that customers are increasingly interested in identifying appliance that are more energy efficient. We participate in this program not only in laundry but in dishwashers and refrigerators also meet the Energy Star standards.

We now offer 28 models of residential and commercial Energy Star washers, 105 models of Energy Star refrigerators, and all of our new Jet-Clean dishwasher line is Energy Star rated. In all, 40% of our appliance sales so far this year are energy star rated.

As George noted, our profitability as a company was impact by ad spending in support of our new product launches during the third quarter. We are having a heavy series of fourth quarter launches and we need to fund not only advertising, but sales, training, and displays to get our product seated and into the marketplace to.

To wrap up, Maytag appliance had a very good quarter. Our market share increased and we feel this momentum will continue as we launch additional new products. Among the product to keep your eye on is our Refresh laundry line, including the Neptune TL and Neptune D.C. and a stainless steel version of our three-rack dishwasher.

Moving to the floor care industry and Hoover. While the industry has seen growth in the last few months the challenges at Hoover certainly remain.

Let me give you a quick update on the industry numbers. You will recall that the industry shipments were down 5.7% in the first quarter and down again about 0.3 in the second quarter. In July and August we've seen improvements with 14.2%.

So year to date the industry is now up about nine-tenths of a percent. When we look at the full year we believe that the industry will be flat to up slightly.

The questions at Hoover primarily center on when we can see a recovery. Our strategy is three-fold. To reduce the uncertainty we face in floor care volume and earnings, by introducing compelling, high value products above $100 price point. To diversify our revenue stream away from upright backs. And lastly, to address our fixed cost base.

The trend for more sales at lower price points in the industry below $80 continues. Meanwhile, sales of higher end products continue to fall. Finally, the year over year decline in sales volume, in average selling price and mix, have caused Hoover profits to fall sharply. Hoover was off again dramatically, with sales down 20%, and profits down about 80% from the third quarter of last year.

Yet sequentially from the second quarter we have made some progress in units and revenue, with flat average selling prices and earnings that marginally improved, just not enough. Hoover will do two things in the coming months. Introduce new value price product that work toward innovation at the high end. That being said, let me talk briefly about the new product Hoover will introduce in this fourth quarter.

At value price points we have two new product entering the marketplace. The first is a bagless upright that we will source from Asia, and a bagged upright that will originate from Hoover's southwest operation selling below $80. Looking to next year, we expect to offer a second value-priced bagged upright in the second quarter.

While we continue to look at strategies to improve our high-end product line in floor care, and it is important to note that earlier this month a major consumer magazine reviewing the performance of upright vacuum cleaners, ranked Hoover's

wind-tunnel self-propelled ultra bag unit as the number one in the market. This model ranked as excellent in four of six categories, including cleaning performance, tools, and emissions.

I believe that we are pushing the right buttons at Hoover, but I am not yet ready to forecast a financial recovery.

Let's talk about the vending business. The story at Dixie-Narco continues to be a good news story. Despite a vending industry that is expected to be down about 15% for the year this business did increase its profitability slightly for the quarter. Vending units growth results from continuous innovation and a diversification of its revenue stream.

We announced earlier this week that Dixie-Narco and Food Automation Systems Technology, also known as FAS Corp. have formed an alliance for product initiatives for the vending industry. FAS Corp. is one of America's largest manufacturers of vending equipment for frozen food items. This partnership will initially include supply and distribution initiatives, but could expand to other areas in the longer term.

Continuing in the commercial segment, Jade is a business that is going through transition as it positions its business in the residential market. Beginning in the third quarter the factory began to move from Commerce, California to, Vera, California. This move is critical to further improve our manufacturing performance at Jade. The new plant is a much more modern facility, and we will be able to integrate many new lean-signal manufacturing facilities into our production, there by improving quality and efficiency.

Jade continues its residential marketing efforts by developing a relationship with Macy's Herald Square department store in New York. Macy's has developed the kitchen at the Cellar, a brand-new area that carves out about 600 square feet in Macy's famed Cellar for cooking demonstrations, food tasting events, and celebrity chef appearances. The kitchen exclusively features an array of Jade products. With 30,000 visitors a day to Macy's, we feel this is an excellent opportunity for to us raise the visibility on our elegant new Jade products.

You may have recently read about our strategic initiatives group in a "New York Times" profile article. This part of the business has been working to bring a number of small appliance to the market. The maytag iron was launched earlier this year and the Jenn-Air line of blenders and mixers are next to go into production in this fourth quarter. The SkyBox by Maytag, a personal beverage vendor, will begin production also in the fourth quarter and we have started to take pre-sale orders to an exclusive placement on Amazon.com. This is a unique product. As a result, we are seeing strong demand for the SkyBox as it garners a significant amount of publicity and in turn, exposure to all the right customers.

Those are the houseware launches for 2003. We have a number of other surprising new product that are just in the development stage. These houseware products are planned for introduction around mid 2004.

Let me also provide you a brief update on Maytag services. In August we announced a significant expansion of services by committing to provide all brand in home consumer appliance service. Maytag services will now move beyond servicing only Maytag brand appliances to repair and maintain all major appliance brands. Maytag services began its test pilot in Washington, D.C., area, and that pilot has since been expanded to Baltimore, Boston, and now into Atlanta.

We're enthusiastic about the potential for this new business and the extension of the Maytag name and reputation for dependability do other than manufacturing of appliance. We view service as a significant growth opportunity for us.

As part of that announcement Maytag services has formed an alliance with Samsung electronics as a service provider for warranty and out of warranty product on Samsung refrigerators, microwaves, and air conditioners. As the new company grows Maytag services will seek other clients for comprehensive service support relationships.

To summarize, Maytag appliances is positioned with new product hitting the marketplace, particularly in laundry and dish categories. More new product launches in November and December will position Maytag for further growth opportunities beginning in the first quarter of 2004.

Our major challenge continues to be floor care. The floor care industry is also improving but we still expect the year to be up only slightly.

Low price point products continue to gain ground. We continue to respond aggressively with intensive cost actions and new floor care introductions as well as new product such as our air purifier and outdoor spin sweep coming out of our diversified Hoover efforts. We believe this hard work will impact the business positively but it will take several successful product introductions above the $100 price point to substantially grow our floor care earnings. We are working feverishly on these.

Overall for the company, we're expecting the fourth quarter to be in the range of 40 to 45 cents per share which includes after-tax restructuring charges of approximately 8.5 million or 1 cents per share. For the full year 2003 then, we expect reported earnings to be in the range of $1.62 to $1.67 per share, which includes after-tax restructuring charges of approximately 42 million or 53 cents a share in the Galesburg closing and salaried work force reductions.

Let me also remind you, that we have scheduled our annual financial update meeting for the investment community which will take place again in New York on November 21st. At that time we will provide expectations and our outlook for 2004 as well as a strategy update on each of our businesses, introduce more of our key executives, discuss new product introductions, as well as addressing all of your questions.

That concludes my remarks, and now I will be pleased to answer any questions that you may have.

Operator?

Operator

Ladies and gentlemen, if you do have a question please press the 1 followed by the 4 on your push-button phone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press the 1 followed by 3. If you are using a speakerphone please pick up your handset before entering your request. One moment, please, before the first question. The first question will come from the line of Michael Regan from CS First Boston. Please go ahead.

Michael Regan - *Credit Suisse First Boston - Analyst*

Thanks. Sorry.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Hey, Michael.

Michael Regan - *Credit Suisse First Boston - Analyst*

Good morning. Ralph, I was wondering if you could just help me conceptually with where you're taking the floor care business. On one hand you said you're continuing to drive -- to develop innovative product with higher price points and features that justify it. On the other hand you said that the trend away from higher price points to the sub-$80 models are accelerating. And so, as an outsider it feels like you're swimming upstream. This is especially disturbing, the trend, the shift to lower price points, because it seems to be the opposite in white goods as people are paying $1,000 for a washer versus a $450 average selling price. Help me understand why it pays to continue to develop higher price point with better feature vacuums when everything is going the other way.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Yeah, I'll try and address your question as directly as I can, but give me a license here to talk about just a little background, Michael, if I could.

I think appliances is different. First of all, for all the reasons that I've talked about before, appliances are a product that are distributed and sold with the sales person explaining the product. They also are bought for a long period of time. People expect their appliance to last for ten years. They also display them. The elegance of how it looks and the brand all matters. So the appliance selling process, how the product is sold and how it's used in the home is different.

Vacuum cleaners are a product that's sold through mass retail largely today, they're sold in a passive sale, they tend to be a disposable item, if they last three years people are perfectly satisfied, they throw them away, and they're put in the closet. So for all that reason, both the psychology and the expectation that consumers have is different. Now let me address your real question, which is why are we doing what we're doing at Hoover. My view --.

Michael Regan - *Credit Suisse First Boston - Analyst*

Ralph, sorry to interrupt, but back to your original point, the largest retailer of appliance, Sears, sells and displace vacuum cleaners kind of the same way, kind of a big deal with their own sales person.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Yeah, and I would tell you that if 40% of the vacuum cleaners were sold through Sears and that's the way the industry worked, we would be in pretty good shape. Both as an industry and as a company, because the way Sears sells them is exactly the way

we think they should be sold, if you're going to get somebody to pay $200 bucks for a vacuum cleaner.

What we're doing at Hoover, the low price point below $80 is 40% of the industry. We can't ignore it. We have to be competitive down there. We're not competitive today. So we're moving from manufacturing that product, and ny the way, our products today are manufactured in North Canton, Ohio, to sourcing and moving them to the southwest. That's what we're doing. That's the only way we can make any margin on those product, as you can imagine.

At the same time that will not have us recover to anywhere near the profitability or margin that we need. The real fundamental problem in the vacuum cleaner industry is not enough innovation at the high end, not enough compelling performance and visual clues that consumers are willing to pay the extra 50 or $100. That's what we have to solve.

For years we did that with wind tunnel. We were supposed to do that with our V 2 product. In fact, the V 2 product was not compelling enough to entice consumers to continue to pay that premium, so we missed on that one, to be honest with you.

We are feverishly working on what is the next new concept, from a performance, from a visual standpoint, that helps us solve that problem.

Michael Regan - *Credit Suisse First Boston - Analyst*

Well, does it make sense to continue to try and drive that if, to your own point, most consumers sort of throw their vacuum out after two or three years?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

I think it's a segment analysis. A lot of consumers, back to school, et cetera, a lot of people are very comfortable throwing their vacuum away, but there's still 15, 20, 25% of the people that want to pay a lot more. Look at the market share of Kirby and Dyson and some people who have eaten into our Hoover situation. Those people are doing with it at $300 and $400 price points. So it can be done, we just have to do it better.

Michael Regan - *Credit Suisse First Boston - Analyst*

So the bottom line is it's a shift in the industry towards lower price point but you've also sort of missed on new product as competitors have come out with better product, and that's why they're gaining.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

I think that's a fair characterization. The good news is, because I don't want this to be all as bleak as it's sounding, when we do that the Hoover profitability will recover, and it will recover substantially. I would also tell you, basically, and I said this very directly, that's not enough, because we do have to change our fundamental cost base at Hoover and we have to diversify out of vacuum cleaners. We think there's a whole host of products, the Floor-Mate would be the one I would point out, but we can put the Hoover name on that have to do with cleaning that people will be intrigued with and are willing to pay nice premiums because it's not as competitive as the upright vacuum business.

Operator

The next question will come from the line of Jeff Sprague from Smith Barney. Please go ahead.

Jeff Sprague - *Salomon Smith Barney - Analyst*

Good morning. A couple of questions. I guess first on the, Ralph, that whole discussion you just had to Mike's question, I mean, the one thing that still gives me pause is all of that dynamic about displaying the white good versus throwing away the vacuum, that's been out there for a long time. Vac sales have transitioned to the Wal-marts and Target's over the last decade. You mentioned in your opening remarks that top-mounts have become commodotized and now you're seeing in that side by side. It seems like in the course of a year the year, the world changed in floor care, although a lot of those fundamental distribution aspects have been in place for a long time and maybe there's hints that it is happening in white goods and, you know, is it retailer behavior, is it import competition, you know, probably all of the above and maybe some other things. But, you know, I would just be interested in really what you see going on in the channels and, you know, if you view what's starting to happen in refrigeration as maybe a little bit of a warning sign.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Well, let me comment on a couple of things, again kind of around that. My first caution would be, don't think that the

vacuum cleaner industry changed dramatically in a short time. I think it's more appropriately to say Hoover's position changed in a short time. I think what you'd find is, if you looked at some of our competitors and could get good data, they didn't feel the industry changed much at all because they had very little of that premium vacuum cleaner business. They had already moved to a sourcing strategy in Asia because their costs were in very much in line.

I don't want to name names but if you looked at the other big floor care competitors and looked at their sales and profitability, you'd find that they moved around but didn't drop like Hoover because Hoover kind of owned that hill of the premium product.

Part of what we did here was we did it to ourselves in not having the right product out there to convince consumers to pay more for it.

Let me get back to your more fundamental question, which is what everybody works about. I've tried to address it from a consumer standpoint. You mentioned retail.

I would tell you that when you find that white goods are sold through Wal-Mart or the clubs to a much greater degree, whatever is sold there will become commodotized and that'll grow. I would also tell you that you have seen a move to value price points in appliance because that's a growing segment as we've always shared with people.

On the other hand there is not the same radical cost difference in terms of margin potential over time between low price point appliances and low price point vacuum cleaners. Vacuum cleaners, because of their labor content, how many you can put in a shipping container, is going to be largely a source product. It's about 50% sourced from Asia today.

I do not believe you will see that in refrigerators or any other major appliance for the reason that logistics don't work. You will see more and more product from Asian manufacturers and U.S. manufacturers, coming out of Mexico because it makes sense for Mexico. It does not make sense for major appliances coming out of Asia.

So the cost position is not as disadvantaged from somebody who manufactures in the U.S. for major appliances as it is for vacuum cleaners.

Jeff Sprague - *Salomon Smith Barney - Analyst*

And I guess to put a finer point on, then, you know, Hoover, trying to understand how much is just Hoover kind of being out of step with the market versus these dynamics, I'm sure it's fair to say that the overall upper end of the market has shrunk, we've had this mixed shift, but can you characterize Hoover's share at the upper end, however you happen to measure it? So basically the up-run has become smaller and you have a smaller piece of the upper end and the challenge becomes kind of regaining that turf, I think.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

You've said that perfectly and the only number I'm willing to share with you at this point is that our sales were down 20% in the second quarter and down about 20% in the third. So being down 20% in sales, particularly when it's the most valuable piece of your mix, that hurts a lot.

Jeff Sprague - *Salomon Smith Barney - Analyst*

One other unrelated question. The flip side is you're saying your capacity constrained in some places in white goods. What do you do about that? I assume you'd prefer not to, you know, be building plants or anything like that. How do you kind of uncork the bottlenecks you might have?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

We were short-term capacity constrained in two categories, and, you know, as strong as the industry was, we did not plan that from an inventory standpoint. Look how precipitously our inventory fell. We sold a lot out of inventory and we had availability issues in cooking because as we came out with all these new lines, Jeff, we could only build up so much inventory of the new product as we sold out the old. So as the orders flowed in we couldn't meet them all. And we disappointed a lot of people to be honest with you.

But that's a short-term thing. We will catch up this quarter without problem.

The other place that we were constrained is we shifted out of our dependable care product built here in Newton to [Circe]-built product in Circe, Arkansas. We doubled the work force in Circe, Arkansas, and we thought we had enough capacity there. The demand for that vertical-axis laundry took off and we had to get in additional mold, they're in place now,

we've doubled the capacity from what it was, we just didn't anticipate the fill and other -- and the strong industry, to be honest with you.

But those are not issues in the fourth quarter. They limited how much we could ship in the third quarter.

Jeff Sprague - *Salomon Smith Barney - Analyst*

Thank you.

Operator

The next question will come from the line of Eric Bothard from Midwest Research.

James Harmon - *Midwest Research - Analyst*

Hi, this is actually James Harmon here and associate. Eric had to step to another call. Two quick questions.

First, you've talked a lot, given us a lot of color on the pricing mix of floor care. Just wanted to -- you to talk a little bit more about pricing mix on major appliances and what's the effect of price mix that was realized in that segment in the third quarter.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Yeah. Our mix was positive in the quarter. Now, within that there was a number of things that went on.

First of all, because of seasonality you saw fewer refrigerators in Q3 than Q2, and we did, and refrigerators are the most expensive, so ASP's tend to go down because of that. We also, quite frankly, as we sold more vertical axis, relative to washers, our laundry ASP went down in that category. For those two reasons our ASP's were down a bit year-over-year.

But we feel we're doing -- if you looked at the mix and I said what did we do in the quarter I'd tell you it was exactly what we hoped for. It was execution against the plans that we had.

James Harmon - *Midwest Research - Analyst*

The second question I had, I'm just interested in your perspective on the strength of the shipments for September, in particular what channels were showing some strength and do we have any excess inventory at retail after the big shipment numbers.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

I'd say all channel show strength. I won't comment on any individual trade partner but if you went across any of the big four independents and you talked to retailers they all had a great month. But not many of them said that their volume was up 10% year-over-year.

So I do not have, you know, absolute visibility to retail inventories but I will tell you, I think, given the rivalry that's going on, there is a greater propensity to order and make sure you're not out of stock as opposed to being very careful and risk averse in inventory. Nobody wants to miss a sale, and that's a good thing.

So whether it's excess or not, that's an interesting debate, but I'll tell you people are willing to hold a bit more inventory in today's environment.

James Harmon - *Midwest Research - Analyst*

Thank you.

Operator

Next question will come from the line of David MacGregor from Longbow Research. Please go ahead.

David McGregor - *Longbow Research - Analyst*

Good morning.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Hey, David.

David McGregor - *Longbow Research - Analyst*

Few questions, I guess first of all on the new product introduction costs in the third quarter. Can you break those out and give us a sense of what we should expect in the fourth quarter?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

I don't know that we can break them out. George?

George Moore - *Maytag - Chief Financial Officer*

The cost of the new product introductions, part of it was logistics, we don't have a specific number as we always have new product introductions coming through. We did see, as Ralph talked about, the logistics in catch-up that we were responding to daily schedule and logistics cost as well as ramping up production that we know we incurred higher cost.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

I don't think it's that material. It's not a huge number. It's millions of dollars, not tens of millions of dollars.

The big thing was advertising. I've said time and again that we need to maintain our advertising. Our advertising levels were down in the first half of this year, and they're going to be up in the back half, and the reason is we've got all these launches, and that's where we spend our money. On balance we're going to spend just about as much this year on advertising as we spent last year.

David McGregor - *Longbow Research - Analyst*

That 13 million, what was the breakdown between floor care and white goods?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

I don't even know. George is scrambling to see if we have it.

David McGregor - *Longbow Research - Analyst*

I'm just looking for approximation.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

We were up in both, by the way, if you saw an ad this quarter, this ad you saw was either a Floor-mate ad or a Fold-away ad, because we've been spending very heavily in numbers. Ten and three.

George Moore - *Maytag - Chief Financial Officer*

Roughly ten for major appliance and three in floor care.

David McGregor - *Longbow Research - Analyst*

Then just on the whole issue of capacity constraints, you talked about the fact that you were moving some things around, there were some new product introductions. I guess clearly that's going to stress the capacity, but it is an indication that you're getting pretty close to your headroom or your running out of headroom, you're getting pretty close to your constraints. Where are you right now in terms of your ability to continue the support growth in unit volumes if the industry continues to grow?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Yeah. That depends on category, but I will tell you — well, let me just go through them. If you looked at dishwasher -- we have no capacity constraints that matter because we have an extremely flexible lean factory in Jackson. If you looked at cooking, for any reasonable time frame, forget a start-up, we have no legitimate constraints, because we have a very lean factory that's all cellular based and we can always add cells in Cleveland.

David McGregor - *Longbow Research - Analyst*

Yet you had trouble this quarter in cooking.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

We had trouble this quarter in cooking because we had to build up inventory for the launch, then we released orders for people, and when we did those orders swamped the inventory. So it's true, the sell rate far exceeded the build rate, there's no doubt about that, but that's not going to continue. That's a channel fill. If we gained 10 point in market share, we could handle it in cooking, and we won't do that.

David McGregor - *Longbow Research - Analyst*

Are you above 75 to 80% capacity utilization in your cooking line?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

No, we're not. If you go to refrigeration we are capacity constrained in some of our profitable lines in refrigeration and we're going through this major change in our factory lay-out.

And as we go through that -- for instance, we have now shut down the wide by side line in Galesburg. Having shut that down we're selling out of inventory and we have to come up in Amana. We might constrained in wide by sides until that line comes up. It depends on whether we guessed right.

There's lots of complexity in refrigeration. We are probably more limited in refrigeration and side by side and bottom mounts than anyplace else.

Laundry is a very mixed bag. We have places like Newton, Iowa where volume is migrating from, where we have lots of capacity, we have places like Florence and Heron that are very near capacity.

David McGregor - *Longbow Research - Analyst*

What was the impact on the P & L, then, from these capacity constraints this quarter?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

All I'm telling you is if we could have made more we could have sold more and we couldn't make it. It wasn't that material but again because everybody worries about 56 cents versus 57 or 58, if we could have made some more, we would have sold some more, but we couldn't make enough.

David McGregor - *Longbow Research - Analyst*

Can you just give us a sense of the sort of revenue and profitability potential for the service strategy?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

You know what I'm going to do, I'm going to tell you that when you come in November, you're going to hear more details about that, but for us service is a big opportunity because the Maytag name is so trusted by consumers, and the Maytag repairman, that icon that we've built up for over 30 years, does very well when you go out and test the concept of calling Maytag to fix anybody's appliances. So today I'd tell you that's around $200 million business but we think it can be far bigger than that.

David McGregor - *Longbow Research - Analyst*

Okay. Just finally if you could talk about a little bit about your raw materials outlook for 2004.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Again, we're going to cover in detail 2004 but let me talk about steel. I think that's on the top of people's minds. We have cut our deal for steel in 2004. So our pricing is locked in. And it basically more or less, for most grades of steel, takes us back to where we were before we had this blip this year. We talked about $30 million of increase year-over-year this year, we're able to mitigate that to down around 22.

What I'd tell you, if you looked at our steel cost next year, and you looked at our causes, about what's good or bad, for steel per se, not an issue. I will tell you there is one issue, and I don't want to quantify it yet, and that's nickel, because nickel for stainless steel is going through the roof at the moment and that could have an impact on us. We will be talking to you more about that in November.

David McGregor - *Longbow Research - Analyst*

Final comment, I don't know if you follow the sort of really high end of the floor care business but this Filter Queen out there that sells vacuum cleaners for $2,000 apiece, and they're experiencing record sales. The difference here seems to be the distribution channel, and they're selling them core to door. So maybe it's the distribution channel you need to be thinking about.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

That's a good idea. Maybe we'll talk to you about that in November, too. Kirby is the other one that does extremely well.

David McGregor - *Longbow Research - Analyst*

$2,000 seems like a lot for a vacuum cleaner, but they're selling very well. Thank you.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

You're welcome.

Operator

The next question will come from the line of Sam Darkatsh from Raymond James. Please go ahead.

Sam Darkatsh - *Raymond James - Analyst*

Good morning, Ralph, good morning, George.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Hi, Sam.

Sam Darkatsh - *Raymond James - Analyst*

So I guess to summarize, we've got one foot on the light side of the moon and one foot on the dark side, so on balance, we're comfortable.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

I wouldn't say we're comfortable but I think your analogy is pretty good.

Sam Darkatsh - *Raymond James - Analyst*

I'm being facetious. One quick clarification on David's question. You said $22 million delta on steel verse 30 this year. Does that mean an $8 million positive impact for '04 or a $22 million negative impact on '04 versus '03? I'm confused.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

I probably did it too fast. We told you steel was a big issue in 2003 and we quantified that at about $30 million. I told you in the second quarter conference call we had had had some success in mitigating that and instead of being a $30 million problem for 2003 it's now down to about a $22 million problem. Which means we improved our cost structure in the back half over that terrible $30 million by $8 million in Q3 and 4.

That actually started in August. In August, we were able to lock in with our key suppliers, pricing for the balance of 2003 and all of 2004. If you looked at our run rate here in the third quarter and particularly in the fourth, that is our steel cost. Neither up nor down from the back half of last year. It's about what it is.

Sam Darkatsh - *Raymond James - Analyst*

So you were running about $30 million run rate in Q1, Q2, and a $22 million run rate Q3, Q4, with a $22 million run rate all four quarters next year? That's how we should look at it?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

If you will forgive the rounding, yes.

Sam Darkatsh - *Raymond James - Analyst*

Okay. Second question, and most of my questions have been answered, but if we can look at Q4 expectations of the 51 to 56, are we assuming that some retailers, their reorder rates of the SKUs is going to fall much like we saw last year when we had some new products?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

What we're assuming is that we did benefit, yes, to answer -- I mean, most directly, yes, we're assuming that we had a surge as we did some channel fill and that's going to go back to a lesser rate, but I will tell you very specifically we're assuming a 2% up industry and assuming we do gain market share in those categories over last year. So there is a market share gain in our assumptions in that EPS number.

Sam Darkatsh - *Raymond James - Analyst*

And the delta in advertising spending in Q4 over Q3, and I think you talked about before how you want to spend about $20 million all in, and it looks like 13 million this quarter, does that mean we will be spending 7 million in Q4 versus the 13 in Q3 or how do we look at that?

George Moore - *Maytag - Chief Financial Officer*

Looking at 6 to million for Q4, so yes.

Sam Darkatsh - *Raymond James - Analyst*

And Ralph, I don't know how we're going to answer this question but we've got a lot of in the air, balls in the air with respect to new products that are being launched here in Q4. We had some executional issues with the new product launches last year with sourcing, logistics, so on and so forth. Are we modeling some wiggle room? I guess that's the technical term,

with respect to any executional issues in the many new products this fourth quarter?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

We're trying to be careful, Sam. Yes, we're trying to be careful.

I would tell you the cooking launch, which was quite complex, went very well, and I'm confident about -- I'm more confident about our execution. We're really close, as you know, on a number of these products, so these product are today on test, and, you know, if you look at both the new laundry product and what we're doing with all of the small appliance products, as long as those tests pan out in terms of production capability, in terms of roll-out, I think we'll do well, but we are being careful about the dates we're committing in terms of when these things will be in the marketplace.

Sam Darkatsh - *Raymond James - Analyst*

The laundry, the two laundry products were obviously the big deals. I think back in last month, when we talked about the drying center you said that you were expecting November shipments for the Maytag stores with beginning December shipments with a more broader roll-out, then in your prepared remarks I think you mentioned that you will be starting production of the drying center in December. Any issues that we need to worry about? Just want to make sure things go correctly and smoothly

---

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

We want to make sure things go correctly and smoothly. We will sell, out of the Maytag stores, for people who want to get one of these things, go to a Maytag store and you can get it in November.

Sam Darkatsh - *Raymond James - Analyst*

Last question. I think, if my math is right, we have as much as $75 million in savings over the next, let's call it 18 to 24 months, on an annualized run rate from your two actions, the Galesburg, then also the headcount reduction earlier this year. Can you help us with the timing of those savings and how much of that we can expect to see go to the bottom line?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Your 75 million is correct. Let me characterize, though. We said about 10 million a quarter for the third and fourth quarter from the salaried headcount reductions, we're achieving that, okay, that's in the bag. To the extent we don't increase headcount, and we have no intention, that will roll out as 40 million next year.

The refrigeration strategy is worth $35 million to us but that rolls out step by step as we execute that strategy.

There's two big pieces to the, Sam. One is top-mounts. When we get out of the top-mount business. I talked about the 15 cubic foot but we also have a 19 and a 21, coming from Daiwoo, and that's midyear next year. Then we have to start up our Renosa facility, which is the back half next year.

So by the time we get through next year we should have realized those savings but you will not see that in the first half of next year.

Sam Darkatsh - *Raymond James - Analyst*

In the first half of next year. And in the second half we start to ramp that up, so if I'm paraphrasing what you just said. So in '04 from the headcount reduction over '03 we look to have an additional $20 million incremental savings, and then some part of the $35 million run rate beginning in the second half? Is that -- did I phrase your -- your words correctly?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

George?

George Moore - *Maytag - Chief Financial Officer*

There should be five to ten million as relates to the 35 that comes in next year. We'll talk more about in that November because we'll have to deal with the start up of Galesburg, the ramp-down of -- start up of Renosa and the ramp-down of Galesburg. So we'll get some more color next month.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

So in your model for next year you can add five to ten million.

Sam Darkatsh - *Raymond James - Analyst*

In the second half from Galesburg.

George Moore - *Maytag - Chief Financial Officer*

Yes.

Sam Darkatsh - *Raymond James - Analyst*

Thank you, gentlemen.

Operator

The next question will come from Laura Champine from Morgan Keegan. Please go ahead.

Laura Champine - *Morgan Keegan - Analyst*

Ralph, excuse me if you've already -- if this question has been already asked, I'm bouncing from conference call to conference call. It's a pretty basic one. So you've hit Q3 guidance, demand for major appliance is better than expected. It looks like your inventory situation is cleaned up. I'm still unclear as to why you guided down for Q4 pretty substantially.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Yeah. The guidance down for Q4 is because we didn't get as much lift from Hoover as we expected in Q3 and we don't expect to get as much as we had hoped for in Q 4.

Laura Champine - *Morgan Keegan - Analyst*

Okay. Can you comment on your share in the Kenmoore branded product, or at least on the direction of that share?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

I'd rather not. We have a great relationship with Sears, we've had a great success with this trio refrigerator, we do make product, and it's our policy that we like to support the Kenmoore brand, where it makes sense for both of us, and you will see we do that wherever we think it's good for both Sears and us. That's really all I'm willing to say on that.

Laura Champine - *Morgan Keegan - Analyst*

Thank you.

Operator

If there are any additional questions please press the 1 followed by the 4 at this time. Michael Regan from CS First Boston, please go ahead with your follow-up.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Hey, Michael.

Michael Regan - *Credit Suisse First Boston - Analyst*

Thanks, sorry. I was wondering if you could just help me reconcile a couple of things that you've said, and maybe you've addressed this. If you have, I apologize. But in the appliance business, solid gains in market share, you know, much better volume that you -- than you expected, record unit sales, but profitability was hurt by burden absorption from lower production levels. How do those two things reconcile?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Well, go ahead, George.

George Moore - *Maytag - Chief Financial Officer*

In the third quarter there were planned factory shut-downs, which we take that expense as a planned shut down, so that has an unfavorable impact in the quarter in which we have those shut-downs.

Michael Regan - *Credit Suisse First Boston - Analyst*

So it's not actually lower production levels, you're absorbing restructuring kind of in pay as you go.

George Moore - *Maytag - Chief Financial Officer*

This isn't the restructuring as relates to Galesburg. This is a current cost as each of these facilities under -- some of the contracts. We actually take shut downs during the year. And we are expensing those costs when the facilities are down, all of that fixed cost falls into the quarter, so this relates to the

factory shut down we saw in Q3, which were planned, and then as we look at Q4 we expect inventory levels to continue to come down, so we'll be producing less than we expect to sell, and also you have the holidays in there where you'll have vital production days.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Here's -- I know what you're pushing on, and let me try and help you.

Michael Regan - *Credit Suisse First Boston - Analyst*

Okay. I still don't feel like I got an answer to the question. I mean, I understand planned shut-downs and things like that, but those should be fairly consistent year to year.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

They are.

Michael Regan - *Credit Suisse First Boston - Analyst*

And so if you had record -- are you that much more efficient now that you could have record unit sales but still have lower burden absorption?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Let me help you with the whole picture, then we'll talk about burden, because if you focus on one thing, it may be an issue. If you all had visibility to our appliance business and our Hoover business --.

Michael Regan - *Credit Suisse First Boston - Analyst*

We'd love to have that, Ralph.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Really? I know you would, I understand that, and we're doing what we can to help with that, so if you bear with us here a little bit, you may learn some things along the way. And I apologize that you don't have visibility. That's what I struggle with, too.

If you saw our appliance business, stand-alone business, you would have been very pleased with how we performed in the third quarter. Burdens, advertising, everything else aside. You would have said these guys got great leverage on increased sales, we did very well. Always in the back half of appliance, because of the scheduled down time and because we pull our inventory down, you know how the accounting works, we assign burden to every unit, and when we pull it out, a unit has all that burden attached it, so we're less profitable in the back half of the year in appliances. It's just our natural seasonal effect, given how much fixed burden we have and have to attach to our unit. So our first half is always more profitable than our second half in appliance.

But I would tell you appliance is trending very positively, year-over-year they did very well. They're going to have a very good fourth quarter from everything we're forecasting and believe and they're going to earn almost as much in the fourth quarter as they earned in the third is our believe, so appliances is doing well.

What is very hard for people to comprehend that don't see inside the company is the floor care business. The floor care business has a different seasonality pattern and by the way, I mean, and I use this in my discussion, when you're down 80% year-over-year on a fairly big business, that is our problem. If you could see everything, you'd see most things in the company growing positive, floor care is a big issue.

Let me help you with one other thing because I don't want you to thing we just accept this burden issue. Burden is a problem for us because we have two contracts that force us to take a two-week shutdown. That's in North Canton, Ohio, in the floor care business, and in Newton, Iowa. In most other facilities, union and non- union, we have eliminated shut-downs. My philosophy is we sell appliance every day we need to make appliances every day. So that's what we're working on.

Because of those shut-downs, we are forced to guess about how much we're going to sell, and how much we're going to sell by unit both in floor care and appliances, and when we do that we guess wrong inevitably, and we have to build inventory, which is costly, and we have to take the plants down, which is costly. So that always affects us in the third quarter and we have to get away from that, and we're working with the unions, and we'll be talking to them about changing those contractual requirements.

FINAL TRANSCRIPT

George Moore - *Maytag - Chief Financial Officer*

Michael, one other thing. The burden absorption was actually favorable year on year. The unfavorability was sequentially.

Michael Regan - *Credit Suisse First Boston - Analyst*

So the -- yeah, I guess it goes back to we can't see kind of the moving pieces, but the way you described it, floor care was more profitable sequentially,

---

George Moore - *Maytag - Chief Financial Officer*

Marginally. Over rounding.

Michael Regan - *Credit Suisse First Boston - Analyst*

You're the ones who said it was more profitable, so I'm just responding to what you said. But overall sequentially margins are down big. So that all comes from just the normal seasonal lower margins in appliances? Is that fair? Because last year margins were up sequentially from 7.7 to 7.9.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Right.

Michael Regan - *Credit Suisse First Boston - Analyst*

This year they went from 8.1 to 7.7, but floor care was about the same, and appliances should have had a blow-out quarter, Ralph.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Appliance had a very, very strong quarter, but I think the assumption that's wrong, and probably we ought to do this off-line, is, look, margins in floor care were no where near where they were last year, nowhere near. They were a fraction of where they were.

Michael Regan - *Credit Suisse First Boston - Analyst*

Okay. Thank you.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Okay. Other questions?

Operator

The next question will come from the line of Dove Sacks from Tension.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

We'll try to make this the last question.

Dove Sacks - *Centurion - Analyst*

Hi, I'm actually from Centurion. I just had a question about management continuity. The last management sort of had a short leash from the board. Are you guys on the same kind of leash or has the board signaled any more patience with your strategy going forward?

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

I don't know what you mean. But, look, I think the board is basically charged with making sure the right things are occurring within the company to improve our performance over time. And the strategy that we're pursuing, which the board reviews and approves, is that as the third largest appliance company, we are going to leverage our preferred brands and innovative product.

We're two years, in my view, two years into a substantial investment cycle to do just that. The products that we're conceived and we're executing against are just now beginning to come out. The dishwasher, the new cooking products, the new laundry products. That's how long it took us to conceive, execute, and bring to production those products. In the next year or 18 months we will find out in major appliances if that strategy worked as well as we had hoped.

So, you know, I don't know what kind of leash we have with the board, to be honest with you. What they expect is for us to improve our performance, and they believe in the strategy, and now in the next year or so we're going to find out.

Dove Sacks - *Centurion - Analyst*

Okay.

Ralph Hake - *Maytag - Chairman and Chief Executive Officer*

Very good.

Well, listen, let me just summarize here for a minute. I think we've talked about this enough, but Maytag appliances did perform well in the quarter, Hoover continues to be the challenge, we're doing the right things at Hoover, but we have to see a turnaround there to really get the leverage that we need out of that business. For us, great product is the key to success, and we are really excited about some of the products that we have now launched and are coming out this quarter, so we really are on the cusp of this thing to see how well it's going to work. I really hope many of you can attend the November meeting. You're going to learn a great deal, you're going to have more details, and it will spark another series of questions, which I think is a very good thing. As always I thank you for your continued interest in Maytag.

Operator

Ladies and gentlemen, that does conclude our conference call for today. We thank you for your participation and ask that you please disconnect your line.

FINAL TRANSCRIPT

Thomson StreetEvents℠

MYG - Q1 2004 Maytag Earnings Conference Call

Event Date/Time: Apr. 22. 2004 / 9:30AM ET
Event Duration: 1 hr 1 min

OVERVIEW

MYG's performance was in line with expectations with comparative EPS of $0.56, up 8% on sales that were up 7%. Net sales were up 7.3%, the co.'s third consecutive qtr. of healthy growth. The co. reported EPS of $0.49 vs. $0.44 in the prior year. Q&A Focus: Major appliances, Hoover, cost reduction, Galesburg, Capex, and guidance.

Δπ EXHIBIT 0
Deponent HAKE
Date 12-8-06 Rptr. KK
WWW.DEPOBOOK.COM

FINAL TRANSCRIPT

MYG - Q1 2004 Maytag Earnings Conference Call

CORPORATE PARTICIPANTS

Ralph Hake
Maytag Corporation - Chairman, CEO

George Moore
Maytag Corporation - EVP, CFO

CONFERENCE CALL PARTICIPANTS

Michael Rehaut
JPMorgan - Analyst

Sam Darkatsh
Raymond James & Associates - Analyst

Eric Bosshard
Midwest Research - Analyst

David MacGregor
Longbow Research - Analyst

Laura Champine
Morgan Keegan - Analyst

PRESENTATION

Operator

Welcome to the Maytag Corporation's first quarter 2004 sales and earnings conference call. Maytag's Chairman and CEO, Ralph Hake, and CFO, George Moore, will provide financial results and share their perspectives on the quarter.

During the presentation, all participants will be in a listen-only mode. Afterwards, you will be invited to participate in the question-and-answer session. At that time, if you have a question, you will need to press the one, followed by the four on your push-button telephone. As a reminder, this conference is being recorded Thursday, April 22, 2004. You can also follow along with a corresponding presentation on our Maytag Corporation website. The presentation will also be available following the conference call.

Additionally, you are reminded that today's call may include forward-looking statements, so please refer to the cautions that are published in Maytag's financial statement and news releases. A reconciliation of the differences between any non-GAAP financial measures used in this presentation to the most comparable GAAP measures can be found at Maytag's website, maytag.com, under Corporate News Center, CEO presentations.

I would now like to turn the conference over to Ralph Hake, Chairman and CEO of Maytag. Please go ahead

---

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Good morning, and thank you for joining us.

With today's conference call, we are introducing both new segment reporting and a new visual component that allows you to follow along from our website as we talk about our performance and plans. We hope both of these changes will help you to better understand our business.

All in all, because of a number of positive impacts, our performance was in line with expectations with comparative EPS of 56 cents, up 8% on sales that were up 7%. Overall, I would characterize our first quarter as good but not great. Let me briefly give you my perspective on the headlines before we get into the details.

First, the major appliance industry grew more rapidly by several points over the mid-single digits that we expected in Q1, clearly an upside opportunity. Second, the floor care industry also grew rapidly, although we can't give you specific statistics.

So our markets were really quite healthy. When I look at our top line, I think we did very, very well in this environment. Net sales were up 7.3%, our third consecutive quarter of healthy growth, the third quarter of last year being up 4.6, and the fourth quarter of last year being up 12.8%.

And growth was even stronger in our Major Appliance segment, up 14% in this first quarter. I believe there is strong evidence that we can grow our overall business and, at least in Appliances, at rates greater than the markets that we participate in.

As is always the case in any business, and certainly in Appliances at least, there were challenges between the top line and the bottom line also. First, we spent $5 million more in national advertising, which was consistent with our brand building and product rollout timing. At 4 cents more EPS, and people would have said we had a great quarter. Unfortunately, this would give us short-term credit, but would not be consistent with our longer term value creation.

Second, steel costs and energy-driven costs, such as resins and fuel, unfavorably impacted our margins, and this, by the way, was a surprise to us.

Third, corporate expenses, including money we spent for SOX 404 were higher than we had planned.

Without these unexpected challenges, we would have hit an outstanding quarter. With this, in spite of so-so performance at Hoover, and I say so-so, even though I said in the fourth quarter Hoover has stabilized, we still expected Hoover to sell more. Our Hoover sales were down 22% from the prior year and down 20%, sequentially. And we anticipated better.

However, you now also see our Housewares margins, and Hoover is the vast majority of this segment. Our comparative operating margins of 10.6% were up sequentially from the fourth quarter. Not bad in this environment. This is attributable to the excellent work that the Hoover team has done to lower costs and reduce break even.

Looking forward, we are not raising our guidance for the year, because in my view, we are only on track to achieve our commitment, not exceed it. If we overachieve in 2004, it will be because the Housewares segment sells more at those double-digit margins, or because our aggressive cost containment and pricing actions in Major Appliances improve margins from their current levels.

Now, let me ask George Moore, our CFO, to provide more details on our financials report. George.

George Moore - *Maytag Corporation - EVP, CFO*

Thank you, Ralph. And good morning everyone.

My objective this morning is to provide you with perspective on our first quarter performance. This will include drivers of change and profitability, as well as comments on the balance sheet and cash flow statement. We would like to note that we have filed our Form 10-Q, which is available on our website and can be reviewed for additional information.

Starting on slide 6, our first quarter 2004 reported earnings per share of 49 cents, compared to 44 cents in the prior year. Included in our quarterly results in both periods were restructuring charges, primarily associated with the Galesburg refrigeration plant closing.

In the first quarter 2004, restructuring charges amounted to $8 million, or 7 cents per share, compared to $9.4 million, or 8 cents a share, in 2003. Our first quarter 2004 restructuring charges were slightly lower than our original estimate, due to a $1.6 million gain, due to the sale of a former manufacturing facility in Indianapolis, Indiana. Therefore, excluding the restructuring charges, earnings per share in the first quarter of 2004 of 56 cents compares to 52 cents in the prior year. The 56 cents per share is in line with our expectations.

Let me comment on two other items that impacted the first quarter. First, the favorable impact from the recently enacted Medicare legislation for federal drug reimbursements. The implementation of the new accounting guidance related to this legislation is expected to reduce our full year 2004 post-retirement medical expenses by approximately $8.6 million, or about $2.1 million per quarter. Given that this subsidy is not taxable, the after-tax impact for the quarter is also $2.1 million, or between 2.5 and 3 cents per share.

Second, our effective tax rate was approximately 28% in the first quarter, compared to our original estimate of 34.5%. In addition to the Medicare subsidy, the tax rate was lower, due to refund claims arising from the filing of amended tax returns for prior years. These changes impact earnings per share and will increase cash.

The first quarter benefit associated with the amended tax returns, net of professional fees, was 3 cents per share. Our full year effective tax rate, assuming no further changes, would be 32.5%. We continue to review foreign, federal, and state tax filings which may impact the tax rate in future periods.

With that earnings per share overview, let me discuss the overall sales and operating income performance before we review results by operating segment.

First quarter consolidated sales increased 7.3%, compared to the prior year. This was primarily due to strength in our Major Appliances segment. As anticipated, sales in Housewares declined from the prior year, although at a slightly greater rate than expected. Gross profit of 17.3% was down slightly from 17.6% in the prior year. Lower sales of floor care products, along with higher steel and fuel costs, offset the benefits of higher sales volume in Major Appliances.

SG&A expenses were 11.4% of sales, up from 10.8% in the prior year. Higher investment in national advertising to support new product introductions, along with higher

professional fees, were the reasons for the increase. Excluding restructuring charges, operating income declined 7.7% from the prior year. Again, the decrease in the Housewares segment offset the improvements in Major Appliances.

As a result of the decrease in operating income, our consolidated operating margin, excluding restructuring charges, was 5.9% in the first quarter of 2004, compared to 6.8% in the prior year. As we move into the segment discussion, I will comment more specifically on the drivers for these year-over-year changes.

Let's begin with Major Appliances on slide 7. Net sales increased 14%. This growth was from industry strength and market share gain in Maytag Appliances, unit growth and foreign currency benefits in Maytag International, and continued strong growth in Maytag Services.

In Maytag Appliances, the major appliance industry was up 8.3%, and our market share gains were in laundry, cooking, and dishwashers. These gains were primarily from new product introductions, including the new Neptune top-load washer and Drying Center, new vertical access laundry, and our new freestanding ranges. Excluding restructuring charges, operating income increased 15.6% from the prior year.

The increase in sales volume, as well as higher production volumes which resulted in higher factory absorption, primarily drove the improvement. However, it was partially offset by a nearly $10 million increase in national advertising to support the new product introductions. In addition, we were negatively impacted by increases in steel, fuel, and other material costs. Excluding restructuring charges, operating margins were 6.6% in both periods.

On slide 8, in Housewares our revenues were down 16.4% from the prior year, although Maytag Housewares performed well during the quarter as a result of our initial shipment of the SkyBox home vendor. This was more than offset by the sales decline in Hoover floor care. Our Hoover floor care sales were down, due to a loss in operating market share in an industry that was up during the quarter.

Impacting sales this quarter were inventory adjustments at two major retailers. Operating income for Housewares declined 35.8% from the prior year. Lower floor care unit volume, coupled with unfavorable product mix, were the primary factors for the decrease in profitability. Partially offsetting the decline in volume was a decrease in national advertising expenses. Overall, operating margins at 10.6% in the first quarter compared to 13.8% in the prior year.

In commercial products on slide 9, sales were up 1.9%. Increases in vending equipment, in Jade commercial cooking, led to improvements as commercial laundry revenues were flat year-over-year. The vending industry continues to be down dramatically year-over-year. However, our sales of higher priced, glass front vendors and refurbished vendors more than offset the declines in unit volume for traditional vendors.

Operating income declined 25.6%, as higher vending profitability was offset by operating losses in the commercial cooking business. Overall, operating margins were 4.2% in the first quarter, compared to 5.8% in the prior year. Sequentially, the 4.2% operating margin was up from a 1.5% operating loss in the fourth quarter.

Before we move to the next slides, let me mention the expense trend for general, corporate, and other. In the first quarter, expenses were $14.2 million, compared to $11.8 million in the prior year. Higher professional fees related to tax, audit, and compliance for Sarbanes-Oxley 404 was the primary contributor to the increase.

For items below operating income, let me cover the significant items on slide 10. Interest expense declined 6.4% from the prior year, due to lower interest rates. The other income prime loss during the first quarter was due primarily to gain on hedges associated with our foreign currency contracts. In the prior year, these hedges had a slight loss.

As mentioned earlier, the effective tax rate was lower than in the prior year. This difference is due to the non-taxable prescription drug benefit in 2004 and refund claims for filing amended tax returns in prior years.

Now let's discuss the first quarter selected balance sheet items on slide 11. We continued to make progress in working capital. Our overall working capital levels are slightly lower than the prior year on a higher sales base. Working capital as a percent of sales was 15.5% in the first quarter of 2004, compared to 16.4% in the prior year. The primary working capital improvement is a 38%, or $137 million increase in accounts payable from the prior year, due to our continued focus on management of payment terms.

Accounts receivable were up $47 million from the prior year. This is due to higher sales in March compared to the prior

F

year, as days outstanding were flat. Inventories were up $88 million from the prior year.

This increase is a result of planned increases in refrigeration transition and seasonality, new product introductions, and contingency planning for upcoming negotiations of collective bargaining agreements. In addition, although our overall sales performance was strong, sales in certain categories were lower than anticipated, resulting in slightly higher than planned inventories.

Total debt levels are up $18 million from the prior year, and $124 million from December 2003. From year end, the primary drivers for the increase were anticipated increase in working capital, as well as $70 million in the first quarter pension contributions. Compared to the prior year, debt is up primarily due to $335 million in pension contributions over the last 12 months.

On slide 12, you can see our overall debt level trends. Our focus in recent years has also been to reduce overall debt levels. As we move into the second half of 2004 and recapture the working capital to cash, we expect our year end 2004 debt levels to be in the range of $900 to $950 million. This would be a $450 million to $500 million decrease from the levels of $1.4 billion in 2001 immediately after the Amana acquisition. As part of our financing activities, during the first quarter we entered into a new three-year $400 million credit agreement replacing our existing $400 million agreement.

Moving to slide 13, let's review the funded status of the pension plan. We continue to make progress on our underfunded pension status. Given our recent contributions, we estimate our current underfunded position to be in the range of $350 to $375 million. This is an estimate, as our annual pension measurement date is September 30th.

Moving to slide 14, our free cash flow, defined as cash flow from operations less capital expenditures, was the use of $106 million in the first quarter. The year-over-year change is associated with a higher increase in working capital during the first quarter of $83 million, as well as the $70 million pension contribution in the first quarter of 2004. There were no qualified pension contributions in the first quarter of 2003.

For the remainder of 2004, we expect to make a minimum additional $20 million in pension contributions for a total of 90 million in 2004. Any additional cash flow generated during 2004 will be used for additional pension funding or further debt reduction. Capital expenditures were $22 million in the first quarter, compared to $37 million in the prior year.

Slide 15 displays our recent trends in capital expenditures and depreciation. After two years of higher capital investment activity in 2002 and 2003 to refresh nearly all of our product line, we expect capital investment activity to remain healthy but more in line with depreciation. We expect 2004 capital expenditures to be approximately $175 million.

Looking ahead, we continue to expect 2004 full year earnings per share in the range of $1.90 to $2.00 per share. This includes after-tax restructuring charges of approximately 40 cents per share for the Galesburg closure.

Although we are maintaining our earnings outlook, we have seen significant increases in raw material price trends since we first gave guidance in November 2003. Our offsets to these increases include lower pension and post-retirement expenses. These are due to higher pension contributions and new labor agreement at Hoover and the Medicare legislation benefit. While we estimate the increase in material costs is somewhat higher than the lower benefit expenses, we expect to offset the difference with continued successful execution of planned product launches, aggressive cost reductions, and pricing actions.

As we move into the second quarter, there were two other risks that we have previously identified. The first is successfully negotiating two major labor agreements, while the other risk is our new Reynosa refrigeration plant start-up, which is currently on track and on schedule.

With this overview of the financial statements and the outlook for 2004, Ralph will provide some additional perspective on our financial performance and business strategy. Ralph.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Thank you, George.

Let me comment on each of the reporting segments, starting with Major Appliances. First, note that each business within this segment, Major Appliances, International, and Services, was up in revenue and in operating income. Maytag Appliances experienced an 11% increase in revenues in a strong industry environment. Core 5 industry shipments were up 8%, 10.6 million units shipped. These industry shipment

levels were down slightly from the fourth quarter level of 10.7 million units shipped.

Our Maytag Appliance business gained share in laundry, dish, and cooking but lost share in refrigeration as we transitioned products. Volume was driven by many of the new products introduced at last year end, which became fully established on retail floors this quarter. Average selling prices, however, were down compared with last year. Profits and margins were also up for the quarter, although the leverage on our sales was poor as we made additional investments in Maytag Appliance's advertising and we were impacted by higher steel, resins, and fuel costs.

The major appliance industry was strong, and we believe it will remain so based on current levels of consumer confidence, interest rates that are at a 46-year low, and housing that remains very strong. New home construction was at 2 million units in March and at historically high levels. These four factors lead us to anticipate that industry growth will continue, and we are raising our full-year volume forecast to 2% to 3%.

Our total product transition is going well, and that includes our execution. We are getting new product into the marketplace, on time, as promised.

Let's take a look at some of Maytag Appliance's latest introductions. In the laundry category, the Neptune TL, our top-load, sold briskly in the first quarter. As you may recall, the TL offers all the gentle care and energy efficiency benefits of a front-load washer with a top-load format.

The retail rollout of the Neptune Drying Center continued in the first quarter, as did our efforts to educate sales floor personnel and consumers on the benefits of this revolutionary multipurpose clothes care product. However, the Drying Center does lag behind our sales expectations in the first quarter. In addition, we saw gains in market share as a result of new vertical access laundry products from our Searcy laundry facility.

In February, we announced an alliance with Samsung for high-efficiency front-load laundry products starting with the Maytag Compact Front-load Washer and Dryer. This compact pair is designed for urban apartments, condos, and even older city homes. It expands our high-efficiency laundry lineup to consumers who, because of space constraints, could not previously take advantage of the energy savings and gentle care benefits that come with the current Neptune washer. The first of these products emerged from this alliance and are expected to be in the market this summer.

Turning to Refrigeration. We are well into our transformation of this category, and the Galesburg shutdown is now ahead of schedule and planned for mid-November. As we previously noted, production for our newly-designed wide-by-side refrigerators began in January at our Amana, Iowa plant, and that is going well.

In addition, as you can see from the photos on slide 21, pilot production has already started on the first side-by-side test units at our new facility in Reynosa, Mexico, with production beginning to ramp up later this month. Sales of source top-mount refrigerators, 15-foot models from Daewoo, also began in the first quarter. All of these moves will result in products that are dramatically improved, especially in the areas of cost and quality.

Last year in Maytag Appliances, our emphasis was on cooking with three major launches. The latest introduction, which is doing very well, is the Amana Range with a 5.22 cubic foot oven, one of the very largest in the industry. This year, you can also expect to see the Jenn-air Dual Fuel Double Oven Range that gives home cooks the tools that professional chefs have been using for years, separate fuel sources and multiple ovens.

Turning to the Dishwasher category. Our dishwasher plant in Jackson, Tennessee continues to distinguish itself as an outstandingly lean manufacturing facility by becoming the first appliance manufacturer to win the Shingo prize, North America's premier manufacturing award program, that recognizes world-class manufacturing strategies and practices. In addition, Maytag's Searcy, Arkansas laundry facility was a runner up. We congratulate the employees from both our Jackson and Searcy plants for leading the way in our conversion to becoming a lean manufacturer with world-class results.

We have two labor negotiations coming up in the near term. At Newton Laundry Products, the contract expires June 1st. At Amana Refrigeration Products, the contract expires September 25th.

In summary, Maytag Appliances had a good quarter, with gains in market share, successful product launches, and good sales momentum, which we do expect to continue.

Maytag Services also performed very well, experiencing a 20% increase in sales and positive margin improvements. During the first quarter, we announced that Maytag Services would officially become a separate business unit within the corporation under the leadership of Art Lehrmont.

Last year, Maytag services began providing in-home repair service for all brands in select markets. This year, it will expand its reach, aiming to grab more of the $12 billion revenue potential in the industry, which we would divide into repair, parts and accessories, and call center service management.

In the first quarter, we hired and trained additional service technicians, and we have begun to supply them with vans that have advanced GPS and sophisticated dispatch technology that will boost their productivity. We are optimistic about the prospects for this business, because it competes in a highly fragmented field, where we believe the strong trust and confidence that consumers have in the Maytag brand will provide us excellent marketing positioning.

Maytag International is also performing well, with both top and bottom line growth. Revenues grew 33% in the quarter, operating margins were well above the segment average. While currency translation provided some boost, there was solid growth in Mexico, Canada, Australia, and the U.K., stemming from new channels and new customers that have come on board during the last year.

In addition, Maytag International has introduced a cadence of new products within all categories, including floor care, into the marketplace. These products are both manufactured internally at Maytag and sourced from outside partners.

Now let's move to the Housewares segment, which consists of Hoover floor care and Maytag housewares. As George noted earlier, Hoover, which comprises the vast majority of this segment, experienced a challenging quarter, with revenue down 22% and profits down even greater than the segment, which was down 36%.

Hoover had performed well in the first quarter of 2003, so this was a difficult comparison. But we were expecting sequential improvement over the fourth quarter in market share, unit volume, and average selling price, and the results here are a letdown, particularly when the floor care industry was strong in January and February, up at least double digits.

Let me explain. The loss in market share, again, came from some of Hoover's low end offerings. In addition, the business lost some share at the high end, because we do not yet have the new compelling product that's needed to excite consumers. Unit volumes fell as retailers adjusted their inventories and delayed purchases. The industry at large continued its movement to lower price points, where Hoover is still working on its offering so that it can be more competitive.

Also, Hoover's average selling prices declined. And Hoover only performed as well as it did because of the results of the successful cost reduction initiatives that we've taken there. We do have a four-point approach to improve Hoover's business, which we will continue to pursue.

Let me update you on our progress. First, we need to be more aggressive and competitive at lower price points which are generally considered to be below $100. Hoover is in the process of introducing an array of products in this price range where the growth has been strongest during the last year. This includes the Hoover Steamer and the Flair bagless stick cleaner and the Tempo, just to name a few.

Second, we must develop compelling products at the middle and higher price points. We are doing that with the launch of the new Hoover EmPower upright. The EmPower is one of 15 new products that will be launched this year. Hoover is also investing in new technologies that will be part of the core product at the high end of the market, and we will see those launches early next year.

The third element of our strategy is to diversify the business outside of upright vacuum cleaners while taking advantage of Hoover's strong brand. We formed a diversified products unit within Hoover to develop these products and services, including, so far, an in-home carpet cleaning service, an outdoor sweeper, and a wall-mounted utility vac for the garage. Our goal is to now own home cleaning inside and outside the home.

And finally, we continue to address Hoover's cost structure by reducing layers, cutting indirect costs, and implementing lean methods throughout the business. The new labor agreement, approved last year, is helping dramatically in this area, as well. Now we need to see how quickly we can make progress toward growth and margin improvement. We knew this would be a down quarter for Hoover, but I'm confident that we are aggressively implementing the right actions to improve this business and grow it.

Maytag Housewares, the other business unit in this segment, did well this quarter, primarily from its introduction of the new SkyBox home vendor, which had nice sell-through at retail. The home vendor is a hit with consumers and is benefitting from strong media interest.

Our final segment is Commercial Appliances, which includes Dixie-Narco Vending, Maytag Specialty, and Maytag Commercial Laundry. Dixie-Narco, again, executed very well, increasing sales 1.6%, and profits were up substantially.

The refrigerated vending industry was down year on year, probably 15% in the quarter. Unit volumes and average selling prices, however, were up in our vending business. Stack vendor sales were off, but sales of glass front vendors, currency machines, and refurbishment in the service business often contributed to growth in sales.

Maytag Specialty is experiencing a 5% increase in revenue this quarter but a decline in profitability. One of Maytag's specialty businesses, Jade, performed poorly because of high costs of production. New products were introduced this quarter, including the high-end Dynasty Talos outdoor cooking suite. Jade continues to excel in delivering custom cooking solutions for very high end of the professional and residential market, with new wall ovens and new cooktops.

Maytag Commercial laundry sales were flat as it exits the first quarter, experiencing some normal seasonality. The commercial laundry business sells products for use with on-line laundry facilities, such as hotels and corn-operated laundromats in multiple housing units such as college dormitories and apartment buildings.

To summarize where we are, we are expecting earnings per share for 2004 to be in the range of $2.30 to $2.40, excluding restructuring charges, with sales growth in the 5% to 7% range. A strong industry environment, both in appliances and floor care, will help us this year, despite rising steel and energy-related costs. The strong industry market share growth in appliances and well-executed product launches should enable us to achieve these goals.

We will now take your questions. Operator.

QUESTIONS AND ANSWERS

Operator

Thank you.

[OPERATOR INSTRUCTIONS]

Our first question comes from the line of Michael Rehaut with JPMorgan.

Michael Rehaut - *JPMorgan - Analyst*

Hi, good morning.

Operator

Please proceed with your question.

Michael Rehaut - *JPMorgan - Analyst*

Can you hear me?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yes, Michael, we can hear you.

Michael Rehaut - *JPMorgan - Analyst*

Great, thanks. Just a question on the Major Appliances. You know, the sales growth was pretty impressive, and just wanted to know in terms of the margins -- margins were, you know, roughly flat excluding charges, this year and last year. When do you think that you're going to be able to get some margin expansion? I know that you've sited some higher advertising costs and raw material costs.

And also in terms of the sales growth, what are you expecting over the next couple of quarters and, what was the contribution from new products?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Let me cover sales growth first. I think that's easiest. We do expect to outgrow the market, whatever the market is. And we've said units will be up for the year 2% to 3% at this point.

Michael Rehaut - *JPMorgan - Analyst*

For Maytag?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Well, for the Major Appliance business. For the Major Appliance business. Maytag will be up 5% to 7%, is what we guess.

Michael Rehaut - *JPMorgan - Analyst*

Okay.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Okay. So the answer to that is we expect to grow more than 2% to 3%, and of course in your model you've got to have them up a little bit if we're going to get to 5% to 7%. So we do expect continued market share gains, really based on the new product launches.

I do think this year will be a challenging year for them in margin. I expect some margin improvement, but I don't think it will be dramatic just because of the cost pressures that we're expecting.

Michael Rehaut - *JPMorgan - Analyst*

And in terms of the advertising costs, what was that up year-over-year for the Appliances?

George Moore - *Maytag Corporation - EVP, CFO*

Approximately $10 million.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yeah, for Appliances, it was about 10, and I think for Corporate in total it was --

---

George Moore - *Maytag Corporation - EVP, CFO*

About 5. -- about 5, which means we spent less in Hoover.

Michael Rehaut - *JPMorgan - Analyst*

Okay. And just shifting to Hoover for a second. You know, it seems like you had a little bit of momentum in the fourth quarter with -- I think it was 1% sales growth, some of the new products on the low end came on line.

What -- did some of those new products on the low end that were introduced in the fourth quarter stall, or was it sort of an initial -- I don't want to say pipeline filling, but an initial take of those products in the fourth quarter, and it just didn't, you know, flow through to the first quarter? Or what's going on with the new low-end products there?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Well, I think you've characterized it very fairly. We did expect better sales momentum and better sales levels in Hoover. The one thing I can point to is we had a couple of our major mass retailers that did take some inventory adjustment.

But I would also tell you that at least at one of our major accounts, we did not get the placements we expected. Pricing seems to be the sole strategy at that account, and although we think our product is superior, we were not able to reach agreeable terms with them on new product placement, and so we missed some placements that we expected at that one account. And that's going to be a continuing problem for us, given the strategy that that one large account is pursuing.

Michael Rehaut - *JPMorgan - Analyst*

Okay. And at the high end, who would you say is gaining share right now?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Michael, if there's good news, the high end of the floor care business is doing quite well. We're not doing quite well in it, but there are still a lot of people who are willing to pay $300 and $400. And I think you could name the names as well as I could, but Dixons is doing quite well, Kirby is doing quite well, and Oreck is doing quite well to name [INAUDIBLE]. I also think the new Electrolux product is having some momentum.

So my point of view is that if you have great product out there, and you merchandise and sell it appropriately, there's a still a pretty good market there. Our product is not coming until the end of this year that we think will be very competitive in

that market. The product we have today is more than a year old and really has not done as well as we hoped.

Michael Rehaut - *JPMorgan - Analyst*

So would you say though that at the high end -- would you say the high end is taking a little bit of share back from the low end shift? Is that -- is the shift that we saw over the past three years towards the low end stabilizing at this point, or how would you characterize that?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

I'd characterize it much as I would characterize Appliances. It's a dog bone effect. There's good growth at the high end, there's good growth at the low end, and the middle's getting squeezed. And the people who are willing to pay for superior product are out there and they're buying product. So there is growth opportunity at the high end.

Now I'm going to ask somebody else to ask a question, if you don't mind.

Michael Rehaut - *JPMorgan - Analyst*

No, thanks a lot.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Okay.

Operator

Our next question is from the line of Sam Darkatsh with Raymond and James. Please proceed with your question.

Sam Darkatsh - *Raymond James & Associates - Analyst*

Good morning, Ralph. Good morning George.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Hi, Sam.

Sam Darkatsh - *Raymond James & Associates - Analyst*

Talk about the inventory build, Ralph. How much was it and -- that had to be I would think a favorable impact to fixed-costs absorption that might have offset some of the -- some of the input cost inflation. Can you talk about the levels of inventory, both through Q1 and then as we progress Q2, Q3?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yeah. I'll have George take you through that. And of course, whenever we build inventory that's favorable, I will remind you that it is our seasonal pattern to build inventory going into the refrigeration season. And with our transition in refrigeration, there's more of that build than normal, just as part of the plan.

But George, give him the specifics.

George Moore - *Maytag Corporation - EVP, CFO*

There was an inventory build. Part of that was, as Ralph said, seasonal and for the transitional, as we are looking at the startup in Reynosa and a phase out of Galesburg product into Amana and the new product coming in from Daewoo.

There was also, with the new products that we saw coming out of laundry, we continued to build once we ramped up facilities, at rates that we wanted to get to and build slightly more inventory in some new product. After having seen what we saw last year with the great success of the cooking products, we did not want to be in a position to disappoint consumers. So that was somewhat intentional.

There was just a gain in specific line items, some inventory that we grew just on the internal forecasting sales [INAUDIBLE]. And that is -- we were up in inventory, and we expect to burn that off. And that is built into our forecast for the rest of the year, to convert that inventory, that working capital, back into cash.

Sam Darkatsh - *Raymond James & Associates - Analyst*

$50 to $60 million, I'm guessing? How much would you characterize the inventory build as?

George Moore - *Maytag Corporation - EVP, CFO*

The -- we were up -- okay, from year end, roughly I think $113 million, you know, probably a little more than two-thirds of that was probably -- the vast majority of that was in Major Appliances and the build for that was just -- well, say excess, it's probably about $20 to $30 million.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

I would have one other point. We did build inventory in the products we make in Newton, Iowa as a hedge against a possible strike, Sam. And we have probably 30 to 45 days of coverage there.

Sam Darkatsh - *Raymond James & Associates - Analyst*

I guess that's what I'm getting at, because you mentioned that the extra advertising spend impaired your contribution margins in the quarter, but then again, you also had -- you were running your plants fuller to build the inventory. So that's I guess where the concern comes, is why the lack of leverage? And I -- you're saying the input cost inflation was the culprit, the primary culprit of that?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yes.

George Moore - *Maytag Corporation - EVP, CFO*

Yes.

Sam Darkatsh - *Raymond James & Associates - Analyst*

Okay. Second question if I might. I know you seem to be demurring talking about Q2 expectations, can you help us directionally with April trends, and how you see profitability coming about it in Q2?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yeah. We think the right communication to you all is to give you the year and let you dial in the quarters, and we're comfortable with that. I think, to be honest with you, I think Q2 is going to be fine. Major Appliances is going to continue strong, and I'd say the wildcard about how well we do is going to be Hoover. But we're comfortable where people are.

Sam Darkatsh - *Raymond James & Associates - Analyst*

Okay. I'll let other folks ask, but thanks, folks.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Thanks, Sam.

Operator

The next question comes from the line of Eric Bosshard with Midwest Research. Please proceed with your question.

Eric Bosshard - *Midwest Research - Analyst*

Thank you. Two questions for you. First of all, on the Hoover business, you start to cycle against these down 80%-type comparisons in 2Q and 3Q, and you obviously were down in 1. Q. I know you're trying to figure out how the market will behave and how your market share will behave, but against the comparisons and considering the cost reductions, should we see flat Hoover profits begin in 2Q? What are the factors that we should think about in order to enable you to accomplish that?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yeah. You should see flat. As you know, those were some pretty devastating quarters for Hoover, particularly on the earnings side. So we have always assumed that the back half of this year beginning in Q2 that we'd have up performance, and that's what we're assuming now.

Eric Bosshard - *Midwest Research - Analyst*

Just to clarify, does that mean that Hoover profits 2Q to 4Q are flat, or up? How should we think about that?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Think about them as being up somewhat, but not dramatically.

Eric Bosshard - *Midwest Research - Analyst*

And that's driven by cost reduction?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

That's driven by cost reduction and product launches. We have, again, 15 launches. You know, you're going to read a lot about this one or that one. It's really the power of having kind of all new product out there at numerous price points in terms of the lineup in any store.

So we think that's going to be quite impactful, and every time we design these products, we're able to take out costs, so in both cases, cost reduction and product momentum, we think that's positive.

Eric Bosshard - *Midwest Research - Analyst*

Okay. And then I guess, you know, flat Hoover. Then the key is if you can continue Major Appliances, which was -- had 15% profit growth in the quarter. The question -- the second question is then on margins in Major Appliances. You talked about flatish or don't expect a lot from margins in Major Appliances, yet clearly you're having success with new products and probably having some success with mix, and I would anticipate success with cost structure.

Can you open up a little bit to us what's going on within the pluses and minuses in margin in Major Appliances especially, What's going on with cost saves, and then the offset from steel, the magnitude perhaps of both and the direction of both?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yeah. And you were kind in listing all the positives, and you did list all the positives, I think, in Major Appliances.

Look, the products are going to do well. And, again, because of the redesigns, we're able to take out cost. But let me talk you through my view of productivity and what's going on and I know people would love to know numbers on steel and all that, but for competitive reasons, we don't think that's a good idea.

Look, we every year save considerable money. Our goal is 3% net of our cost. So think of us generating about $70 million worth of cost reduction each and every year. And we've actually exceeded that in each of the last of the two years. This year, what'll happen is we will generate that or more because of our renewed emphasis. We're actually shifting engineering resources at this time, to put more emphasis on cost reduction.

Because the benefits to that are greater, given what's going on with some of our raw material pricing. So we will save about $70 million. This year, much of that $70 million will be offset. I say much, not all, by a long shot, by increases, first of all in steel, which began in the second quarter. Stainless is a biggest problem, but cold rolled is also a problem, as are all grades of steel. Our availability is good, which is a good thing.

And the other problem is we're seeing energy-related raw materials, particularly resins and fuel for everything we haul, as being unfavorable to our forecast. But that's minor compared to the steel issue. So what you'll see is, of course, our costs will actually go down this year, but not down at the rates that we had planned.

To make headway in this business, I believe you've got to take 3% of your cost out, pretty much every year, if you're going to follow what's going to happen in industry pricing and mix changes. So that's really what's going on inside the business.

Eric Bosshard - *Midwest Research - Analyst*

As we get into '05 with Reynosa, Galesburg, benefits, and perhaps less of a material cost situation, should we begin to see margin recovery in Major Appliances in '05, or is there something structural that's changed in the industry that would prohibit that?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

I think you will see margin recovery in '05, and we've said Refrigeration is worth $35 million to us. It is worth $35 million to us from wherever you start.

Eric Bosshard - *Midwest Research - Analyst*

Okay. Thank you.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yes, sir.

Operator

The next question comes from the line of David MacGregor with Longbow Research. Please proceed with your question.

David MacGregor - *Longbow Research - Analyst*

Good morning, Ralph. Good morning George.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Hey, David.

George Moore - *Maytag Corporation - EVP, CFO*

Good morning.

David MacGregor - *Longbow Research - Analyst*

You've mentioned in passing your ASPs in your Major Appliance business were down, I wonder if you could just talk a little bit about that? Was it mix, was it deterioration to lower the midline? Can you give us a little more color on that, please?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yeah. It was mix. And, you know, I think pricing in Appliances is one of the most challenging questions you can ask, because it's never simple. Let me give you the facts, and then I'll give you some editorial.

Our pricing was down sequentially, and it was down with regard to quarter-over-quarter. And the single biggest cause of that, if you looked at the change from the prior year, 85% of it, actually the calculation is 86% of it, was a change from category to category. It's very simple. We sold fewer refrigerators, and refrigerators are by far the higher average selling price. We lost some share in refrigerators, and we particularly lost shares in top mounts, where we're just transitioning product.

So, if you ask me why we were down from prior year, 86% of the change was really due to fewer refrigerators. Now, if you ask quarter-to-quarter, the answer's the same. It's fewer refrigerators. There it's 130% in price decline. In other words, if we'd sold the same number of refrigerators, our pricing would have gone up.

So if you look by category, our pricing was up in laundry and that's because of the new product launches. Our product was up in the dishwasher category because of new launches. It was down in the cooking category, because we had all these new cooking products that enabled us to reach lower in the price range. And in refrigeration it was flat.

So, you know, what we're going to give you each quarter, which we started doing, is the average selling price. It's our goal to kind of hold average selling price. But, particularly seasonally, you can have some pretty substantial changes, and of course, to the extent we sell more refrigerators and our refrigeration share grows, almost by fiat, that's going to cause our average selling prices to go up. Because it's the highest priced product by far.

David MacGregor - *Longbow Research - Analyst*

So as we go into the second quarter, which is the beginning of the typical refrigeration season, how are you positioned? Is this trend going to continue or do you see a turnaround?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Well, we will clearly sell more refrigerators in the second quarter, and I think you should expect average selling prices by definition, seasonally, to go up.

David MacGregor - *Longbow Research - Analyst*

Sure, but relative to the market.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Relative to the market. Well, I think I'd say what every competitor would say, and that's, I think, through the initiatives we're taking in product, particularly premium laundry, and what we are doing with our bottom-mount refrigerators and our new side-by-sides, that our pricing should go up. Now that doesn't mean we raise pricing on similar product, although we just did that as you're well aware. What that really means is that we're able to change the mix within the product category.

Our goal, as you know, is to sell half of our products above the top third of appliance price points. And -- I'm looking for the data on that, here. But, if you looked at that, we are doing very well in ranges and quite well in refrigerators. Again,

because the top-mount business for us is shrinking, and we're doing pretty well in laundry. We're just below 50% of our products are in the premium laundry. And the only place where we are going down, on this scale, is dish because we're reaching down to some lower price points that we hadn't reached to before.

David MacGregor - *Longbow Research - Analyst*

Okay. Just turning to Hoover, with 15 new floor care products being introduced here, I'm wondering to what extent you've prepped the retail market? And you're going to get the cooperation. You mentioned the disappointment with the one retailer's response to your offering this quarter. Have you taken measures in discussions with retailers to ensure that that doesn't happen with the new product introductions?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yeah, I'd characterize our position, as with most of retail -- 8 accounts make up 80% of that business today -- we're doing just fine, and they love the offering and think we're doing well. We really have one account where we have an issue now, Unfortunately, it's our largest account.

David MacGregor - *Longbow Research - Analyst*

Do you think they're going to be a little friendlier to you on the intros?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

I don't know.

David MacGregor - *Longbow Research - Analyst*

Okay.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

I would say this, given the relative margins and the positioning of the product, the sales may shrink but it's not as big an impact on the bottom line as you may calculate, because it's low margin stuff.

David MacGregor - *Longbow Research - Analyst*

Okay. And then, just finally on the Hoover business, and this I guess is more with respect to the Housewares, which is dominated by Hoover, obviously. But I notice that despite the restructuring that's been going on in your floor care business, the Housewares asset base grew by $35 million, sequentially, and I was just wondering if you could help me understand what's going on there? Is this inventory or is there something going on in terms of manufacturing assets?

George Moore - *Maytag Corporation - EVP, CFO*

The inventory was higher in Hoover, okay? For quarter. And if you look at the housewares segment, we basically didn't have product last year. Okay? And you also had, okay, accounts receivable being up in the first quarter, as well. Yeah, George, that's a sequential. That's against your year end balance sheet, I think you reported in the queue. Yeah.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

The only thing -- I honestly don't have those numbers in front of me on the balance sheet. That's a very good question. Why don't we have Steve get back to you on that particular one.

David MacGregor - *Longbow Research - Analyst*

Okay. Thanks very much, and good luck.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yeah, thanks.

Operator

Our next question comes from the line of Laura Champine with Morgan Keegan. Please proceed with your question.

Laura Champine - *Morgan Keegan - Analyst*

Good morning.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Good morning, Laura.

Laura Champine - *Morgan Keegan - Analyst*

A question -- another question, just a clarification on the Hoover business, which, wow, that used to be a really profitable business, wasn't it?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yes. Surprising, isn't it?

Laura Champine - *Morgan Keegan - Analyst*

Pretty amazing. Yeah, excess returns tend to get taken out.

In -- were you, in response to Eric's question, were you talking about flat -- an outlook for flat operating percentages, operating margin percentages going forward?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

In Hoover?

Laura Champine - *Morgan Keegan - Analyst*

Sequentially? I didn't understand the answer to the question. I mean, it looked --

---

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Sorry. Yeah. What I think will happen is, Hoover margins will be at where they are or up slightly. Okay? And the question is, how much growth in sales can we generate in the back half? I still believe from an absolute profitability standpoint, Hoover will be better in Q2, Q3, and Q4, but the question is how much sales growth can we generate there at that level of margin.

Laura Champine - *Morgan Keegan - Analyst*

So you're saying you do expect to keep margins flat on a sequential basis in the next -- or better in -- on -- in the upcoming quarters?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Correct.

Laura Champine - *Morgan Keegan - Analyst*

Okay. And just secondly, how much is international as a percentage of your total sales, and what was the impact of currency on the top line this quarter?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yeah, George has got both those.

George Moore - *Maytag Corporation - EVP, CFO*

International -- international for the quarter was $130 million.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

$130 million.

George Moore - *Maytag Corporation - EVP, CFO*

And the impact of currency on the top line was approximately $13 million.

Laura Champine - *Morgan Keegan - Analyst*

Great. Thank you.

George Moore - *Maytag Corporation - EVP, CFO*

International was up double digit, okay, top and bottom line, with and without currency.

Laura Champine - *Morgan Keegan - Analyst*

Okay. Thank you.

Operator

Our next question comes from the line of Michael Rehaut with JPMorgan.

Michael Rehaut - *JPMorgan - Analyst*

Yes. Just a couple of points of clarification. On the tax rate, you know, if I back out the 3 cents of benefit, I'm getting to

roughly a 32% tax rate. I was wondering if you could confirm that and give us visibility for the rest of the year?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

I believe we said it was going to be 32.5%.

George Moore - *Maytag Corporation - EVP, CFO*

Yeah, that was with the impact of medicare, with the amended returns, what we would see for the full year would be about 32.5%.

Michael Rehaut - *JPMorgan - Analyst*

Okay. And before -- in -- when you were talking with Eric about Hoover and profits year-over-year for the next quarter, so you said flat profits, were you talking about margins or absolute dollars?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Well I think what I tried to say was flat margins, profit improvement. Absolute dollar profit will improve.

Michael Rehaut - *JPMorgan - Analyst*

And is that dependent on some of your lower-end products picking up again in terms of, you know, what you saw closer to the fourth quarter? Or is it just purely dependent on the restructuring benefits?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yeah, I don't mean to -- I don't mean to give you, you know, an indirect answer. It's really dependent upon all four of those elements that I talked about, the diversification strategy being the least impactful in the near term.

But we do have to continue to lower our costs aggressively and get the break-even down. We've got to have some more compelling high-end product. And EmPower is the first one of those you're seeing, there's more of that coming. And then we've got to get competitive at the low end through additional sourcing. And all three of those need to work pretty well, and we think all three of those will work.

Remember, and, you know, Laura said well, you know, those excess profits get drained out. Those excess profits existed in Hoover for a very, very long time. So the -- the history is pretty impressive here.

And I think what's happened is that with the Asian invasion and the change to more mass, we have lost our ability to convince consumers to pay more for product in that channel. We need to get back to doing that. I'm convinced we can do it and I'm convinced there's upside in that margin, but I certainly would like to see that happen before I promise it to you all.

Michael Rehaut - *JPMorgan - Analyst*

Great. Thanks a lot.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Okay.

Operator

Ladies and gentlemen, as a reminder, to register for a question, please press the one followed by the four.

The next question is from the line of David MacGregor with Longbow Research. Please proceed with your question.

David MacGregor - *Longbow Research - Analyst*

It seems as though we got an opportunity to get on and ask a few more questions here, so I thought I'd just get your thoughts on what you're seeing in the premier laundry segment. You know, what your thoughts are in terms of the category overall. Is it continuing to grow, is it slowing? I would also appreciate your thoughts on your positioning there.

And then secondly, maybe just get your thoughts on what you're seeing. I realize it's a relatively small part of your business, but the builder channel, are you seeing anything in the way of acceleration or deceleration in order trends there? Thanks.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Okay. Premium laundry is a very good business. It was a very good business from us when we more or less created it in

1997. Lots of people saw the profit opportunity. Retailers love it, because, of course, it enables them to earn both higher margin percents and higher absolute dollars for every unit sold. Consumers are beginning to buy into it because they realize that these machines over a reasonably short period of time do help pay for themselves in energy savings, and they love the clothes care benefits.

So the other thing that happens is more competitors enter that, and now I think we've got just about everybody that counts with an offering out there. What happens is that it validates the category. Competitors see that they have a choice. They see that there's different formats and configurations. And so they love it. I -- you know, that's probably 10% to 12% of the laundry business today, and I think it will continue to grow. And it's one of the best things that's happened in our industry.

Now, I will, as a little advertisement within that, with what we're talking about when we're talking about premium laundry, everybody else is talking about washing machines. We are now talking about washing machines and dryers, okay? Because that is the untapped potential in the premium laundry business. Dryers that perform better will also enable people to say, oh, this is a better machine. It does things differently and better and solves my laundry problems. That's why we have the dryer campaign out there. And we think that's going to be -- create a whole new segment there, too, and people will mimic it, and that's fine.

So premium laundry is going very well. If you talk to any of your retailers, they would say that it's a good business for them. You see that product positioned more prominently in the store. The people are well-trained on it.

And we expect to participate to a greater extent in premium laundry, particularly as we bring out the new Samsung source products the middle of this year and the end of this year. Those products will give us a -- an entree into front-control, under counter that we don't have today. And that's very important, because that's what some people are looking for in premium laundry, and they can't do it with the Neptune. So that's premium laundry.

The Builder business for us, as I've said to you many times, is a smaller part of our business, actually in the first quarter it was 8.5% of Major Appliance business, about 5% of our total business. It's a good business for us. But we participate much more at the custom home and upper end where people are willing to pay a premium. Much less in the national builder piece where price and cost and logistics are the key considerations for the builders.

So we do fine in that business. We are not seeing any slackening. That business is growing nicely, but it's not outgrowing our Major Appliance business, it's consistent with some of the other growth.

Michael Rehaut - *JPMorgan - Analyst*

Just going back to the relationship with Samsung, are you entertaining sort of taking that model to relationships with other Asian or European manufacturers?

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Yeah. I think -- and of course we have a pretty strong relationship with a couple manufacturers over there with Hoover. Because our goal is to source 30% or 40% of our product from Asia.

And I do believe in this relationship model. We do not want 10 vendors where we put out an RFP and get people to bid. We want to have a development process and cycle where we work directly with some people who we believe are tied to us and we're tied to them. It works through a lot of the process and methodology, if people understand one another and where they're going and have a mutual dependence.

I believe that sourcing from China will be fundamental for us as a company and for anybody who is successful in the major appliance business. Now, that's not true of laundry, given the labor hours in laundry. It's not even true of refrigeration because you see all the Asians going basically to Mexico, because of logistics issues. But it is true for the smaller appliances, things like SkyBox, things like our Attrezzi blenders, and some other products that you'll see coming out. And I think we have to have sourcing capability there that works pretty well.

Michael Rehaut - *JPMorgan - Analyst*

Thanks very much.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Thank you.

Operator

Once again, as a reminder, to register for a question please press the one followed by the four.

Ralph Hake - *Maytag Corporation - Chairman, CEO*

Alistair, I don't think there's any more questions. And it's about time. Let me wrap this up, if I may.

Let me just say that our business in the first quarter was good but not great. I do believe we're on track to deliver our commitments $2.30 to $2.40 a share, excluding restructuring. Revenue generation is pretty strong, and the profits so far have been hindered by some of our rising raw-material costs. Maytag International and Dixie are performing very, very well. This will be a very busy year of product launches for us, and we're executing very well against those launches. And I continue to thank you for your interest in Maytag.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation, and ask that you please disconnect your line

FINAL TRANSCRIPT

CCBNStreetEvents℠

Event Transcript

MYG - Maytag Conference Call to Discuss Major Restructuring

Event Date/Time: Jun. 04. 2004 / 11:00AM ET
Event Duration: 54 min

OVERVIEW

MYG today announced a comprehensive business restructuring that consolidates the Hoover Floor Care, Maytag Appliances and Corporate Headquarters organizations. Q&A Focus: Restructuring actions, capacity, product costs, Canton facility, volumes, and margins.

Δπ EXHIBIT 7
Deponent HAKE
Date 12-8-06 Rptr. KK
WWW.DEPOBOOK.COM

FINAL TRANSCRIPT

MYG - Maytag Conference Call to Discuss Major Restructuring

CORPORATE PARTICIPANTS

Ralph Hake
Maytag Corporation - Chairman & CEO

George
Maytag Corporation

CONFERENCE CALL PARTICIPANTS

Michael Rehaut
Maytag Corporation - Analyst

Sam Darkatsh
Raymond James - Analyst

Jeff Sprague
Smith Barney - Analyst

Laura Champine
Morgan Keegan - Analyst

David MacGregor
Longbow Research - Analyst

Tony Campbell
Dorset Management - Analyst

Eric Bosshard
Midwest Research - Analyst

Eric Ribner (ph)
Northstar - Analyst

Jeff Birchill (ph)
Polar - Analyst

PRESENTATION

Operator

Welcome to the Maytag Corporation's conference call. Maytag's Chairman and Chief Executive Officer, Ralph Hake, will provide an update on the business. During the presentation, all participants will be in a listen-only mode. Afterwards you will be invited to participate in a question-and-answer session. At that time if you have a question, you will need to press the one followed by the four on your pushbutton phone. As a reminder, this conference is being recorded, Friday, June 4th, 2004. Additionally, you are reminded that today's call may include forward-looking statements, so please refer to the cautions that are published in Maytag's financial statements and news releases. I would now like to turn the conference over to Ralph Hake, Chairman and Chief Executive Officer of Maytag. Please go ahead, sir.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Thank you. Good morning. I appreciate all of you joining us on this short notice. I would like to spend a few minutes describing our plan going forward to improve the performance of our business and then take your questions. The restructuring we have unveiled today will help us improve our speed, execution and marketplace competitiveness. This will result in achieving 8% operating margins performance in 2005. Overall, we have already made significant progress at Maytag in many areas. They include our brand positioning, which includes our effort to reposition the Amana brand and grow the Jenn-Air brand.

We have also updated our product portfolio and that has resulted in new platforms in cooking and dishwashing and laundering. We will cycle through refrigeration in the next four months. And we improved our quality levels and we have positive trends in quality. This has been accomplished through an enormous effort and augmented resources throughout the company, but especially in R&D, marketing and marketing support. Despite these accomplishments and reasonably good growth at the top line, we have not converted these operational improvements into earnings growth that I expected or committed to. As we begin this restructuring we will continue to leverage the strength to improve performance in this highly competitive marketplace for floor care and major appliances. To reach our operating profit margin goal, we must reduce our costs and this requires a restructuring.

Our model for what Maytag and Hoover needs to be must be modified to win in this environment, which will only get more challenging. The good news is we know how to do this. Our cost position, and that is the problem, costs, should be analyzed in really two buckets. First, let me talk about our product cost. When examined carefully product costs are first of all a function of our designs. We have competitive designs in major appliances and are working to become competitive in the design of low-cost vacuum cleaners. Our costs are also a function of our supply base, where we rival our best competitors and are continuing to make progress.

In our factories we have been addressing our high cost structure step-by-step through benefit containment, moving to Mexican manufacturing, application of lien sigma and, when necessary, sourcing from Asian sources. We have made steady progress in our product cost positioning. And although this is a never-ending challenge, we are not significantly disadvantaged in product cost today. The second bucket is all the costs, excluding product and factory costs, our Go To Market and infrastructure costs. Here

our progress, unfortunately, has been limited. We are not competitive at Hoover and not as competitive as we need to be at Maytag Appliances.

To fix this disadvantage we will undertake a comprehensive business restructuring with a one company approach beginning today which will largely be completed by the end of this year. We will consolidate Hoover Floor Care, Maytag Appliances and Maytag Corporate Center into one organization. In the process we plan to substantially reduce our headcount and cost structure. We will also transform Maytag into a lean and market focused organization that will improve customer and market responsiveness. This means, first, a reduction of about 20% of the corporation's salaried work force. That is all together about 1100 people. We will have about 28% less salaried employees than we had in January of 2003.

About 500 salaried positions are expected to be eliminated from across the Hoover organization, including the North Canton facilities, southwest operations, field sales and service. However, most of the reductions will come from the headquarters in North Canton. Manufacturing and some R&D will remain there, but the headquarters function will be consolidated. Other salaried positions are targeted for elimination from across the Maytag Appliances organization and the corporate center. In all about 600 positions will be eliminated from these two organizations. P&L accountability will now reside with small, customer facing teams within the one company marketing organization where Hoover will now operate as a strategic business unit along side the three already existing units, Maytag, Jenn-Air and Amana.

Our sales organization will be aligned and combined to eliminate the redundancy of going to the same customer with different teams. Four of Hoover's top 10 accounts, Sears, Home Depot, Lowe's and Best Buy, are the four largest appliance accounts. Existing Hoover sales professionals will cover the other key Hoover accounts. Hoover's top 10 accounts represent about 80% of the Hoover business. And the top 40 accounts represent 90% of our total floor care business. We expect to manage this transition so that there is no disruption to our customers and hopefully better connectivity and account service. Consolidation will occur in IT systems, HR and finance, where one group of professionals concentrated in one location will serve all of the business and the corporate needs.

As a result, Maytag will become a much leaner organization, capable of better serving customers and more rapid decisioning making. Our goal is expected to achieve 8% operating margin in 2005 through $150 million in cost reductions and to make a cultural transformation in our corporation. That means creating a flatter, more agile externally focused results driven organization and new leaders in key roles. Make no mistake, we will continue to be committed to our brand positioning and product innovation strategy as the basis for revenue growth and profit growth as this is where Maytag has competitive differentiation. But we do aim to eliminate the waste and less valued parts of our Go To Market model as well as our high overhead and administrative cost structure.

Major change of this magnitude is a challenge to manage. In 2001, however, we successfully integrated the Amana business with a disciplined and rapid cost takeout methodology. This restructuring requires similar skills and disciplines. We expect to do it well and with a minimal disruption or revenue generation impact. Specifically, the cost of this restructuring is estimated to be about 75 to $100 million with 45 - 60 million of it being cash. For full year 2005, savings will be $150 million. I wish that this was the only message that I had to convey today but I also need to tell you that our second quarter is going to be a disappointment. In April, and now in May, Hoover sales and to some extent major appliance sales have been below expectations and several elements of cost have exceeded our forecast. As a result, we will miss the consensus forecast by a substantial amount.

This is directly the result of lower than anticipated sales volume at Hoover and major appliances, lower factory volumes related to our rebalancing our inventories, and higher steel and resin costs. In addition, we expect to incur restructuring charges and asset I impairments associated with the business restructuring announced today. Also, other items may impact the quarter, including a legal charge for an unsuccessful appeal of a lawsuit and a gain in discontinued operations from the pending sale of our joint venture in China. So for the full year, including the items previously mentioned, we expect reported GAAP earnings per share to be in the range of $1.00 to $1.10, assuming consistent industry conditions and no further significant increases in steel costs.

This includes approximately $1.00 per share in restructuring charges for the business restructuring just described and for the Galesburg plant closure. There's no doubt in my mind that this change in our cost structure will better position Maytag for the future. And even in the third and fourth quarters of this year, we bill benefit substantially from this restructuring savings. I believe that this is the right answer for Maytag, for Maytag's customers and for our shareholders and it will lead to substantially better margins and better growth. Now, let me take your questions. Operator.

QUESTIONS AND ANSWERS

Operator

Our first question comes from the line of Michael Rehaut from J.P. Morgan.

Michael Rehaut - *Maytag Corporation - Analyst*

Hi, good morning.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Good morning, Michael.

Michael Rehaut - *Maytag Corporation - Analyst*

Just a couple of questions. In terms of the restructuring actions, it appears that most of it has been in terms of -- or a good portion of the benefits in the reduction in 20% of the sales force, but I was wondering if you could delineate what really constitutes that 150 million in savings and also are there any actions that you're taking as part of this restructuring that involves shifting production capacity in the appliances business to Mexico or outsourcing?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Okay, kind of two questions there. Actually, three questions. In terms of the sales force, you have to understand that this will only marginally impact the sales force except at Hoover where we will be combining our existing customer teams that serve our larger customers and adding a floor care specialist. The sales force is very little impacted by this. We actually think for the large customers that Hoover will get equal or better coverage. That's part of the goal here is to make sure that we don't reduce sales coverage. Generally, where the savings is going to will be proportional to the numbers that I mentioned in terms of the reduction, so about 45% if this savings would be Hoover, specific, about 55% would be appliances and corporate. And I just want George to kind of touch on the areas where we have the savings and then I'll come back and talk to you about manufacturing.

George - *Maytag Corporation*

Michael, of the 150 million that we're looking at roughly 80 million of that is head count related, related to the 1100 people that we're looking at. The other 70 million really relates to third-party costs and things like R&D, market support, back office systems as we combine from multiple legacy systems on to one set of systems and infrastructure cost.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

And on manufacturing, this is not about manufacturing. I talked about that at the beginning and some of the actions we've taken. There's really no significant impact here in terms of shifting volume or new product platforms in Mexico or anything like that. We have previously said we have no current plans and we have none today to shut down additional plants. It's a matter of managing with our existing work forces and unions to reduce the cost structure of the plants that we have today.

Michael Rehaut - *Maytag Corporation - Analyst*

On that final comment, Ralph, I know it's probably pretty difficult perhaps to talk about the negotiations right now with your Iowa plant with the union, but as you just said, part of that it you're trying to get into a better cost position, labor cost-wise. If things prove unsuccessful and cost structure of that plan is not where you want it to be with these negotiations, what alternatives are you going to look at?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

That's a great question, the way you ask it. Of course I'm not going to answer the question you asked. But let me just characterize the negotiations this way. We're working with the union leadership. We're under a short extension here to make sure that people discuss and truly understand the challenges and issues that we face.

Both party have agreed to provide additional time under the existing contract, which of course is going to run out next week. As I've said before, Newton laundry is our highest cost facility and that's primarily as a result of benefit costs. We're working together to figure out if we can mutually address those. To the extent we can't work this out, we do have contingency plans in place and I've said many times that I am committed to solving our structural cost issues. So we just have to give the right folks the right amount of time to work through these and see where we come out.

Michael Rehaut - *Maytag Corporation - Analyst*

I appreciature your answer on that, Ralph. One last question, just on that topic and then I'll get off. Do you have capacity at your other laundry plants, enough excess capacity, potentially, to take on volume from the current plant that you're negotiating at or --

---

Ralph Hake - *Maytag Corporation - Chairman & CEO*

We're in either the fortunate or unfortunate position of having four laundry facilities. Two of them are quite cost effective. And the third one is very competitive within the industry and we could expand volume at all three of them.

Michael Rehaut - *Maytag Corporation - Analyst*

Okay, thank you.

Operator

Our next question comes from the line of Sam Darkatsh, Raymond James.

Sam Darkatsh - *Raymond James - Analyst*

Ralph, good morning, George.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Good morning, Sam.

George - *Maytag Corporation*

Good morning, Sam.

Sam Darkatsh - *Raymond James - Analyst*

A couple of questions, Ralph, if I could. You mentioned that you felt okay with the product costs, at least with respect to that bucket with Hoover. Is that to say that Hoover's cost of sales structure versus the competition is essentially in line or are you still disadvantaged given the fact that you're still producing out of North Canton?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Well, I'd say we're more disadvantaged at the low end than the high end, to be honest, Sam. The designs that we have designed in the U.S., transferred to Asian production that are in the marketplace today are okay. But I still think that our Asian competition has executed against a lower cost concept in terms of what that product needs to be and when we look at what's required to be competitive at the low end today and the margins we're earning are not sufficient. I honestly believe that we can continue with our plants in Juarez and El Paso to be quite competitive for the mid-line and upper product and I think that there are some things we can do in North Canton and still make excellent margin. Those will not low-end vacuum cleaners, which is, until recently as you know, what we were producing there.

There are products that we can put in North Canton and still earn very good margins and, I think, protect those margins if North Canton is as efficient as it needs to be. Our labor agreement in North Canton provides for the fact that we will have a what we call guaranteed number of employees. If we go below that there's a penalty that we pay in terms of laying people off. We set that consistent with what our belief is over the next three years or so of what that plant can do. But remember there's less than an hour in an vacuum cleaner. When you look at logistics cost, when you look at quality considerations, it's less than an hour and that's not the key to being competitive in the product. It's a matter of correct design, correct feature pack and correct sales to convince the consumers to pay more. It's less than an hour.

Sam Darkatsh - *Raymond James - Analyst*

If I recall correctly, I think North Canton does about half of your total volume of Hoover. Is that to say that half of your total volume in Hoover is disadvantaged or is in a far less percentage of that from a competitive standpoint?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

George.

George - *Maytag Corporation*

As we look at the volume that's done at North Canton and the others, as Ralph mentioned, it's really tide to price points and what product is there. Where we are disadvantaged is in the design of the low price point. As we get to cost structure the

southwest is very competitive. Asia is competitive and North Canton. As we get to the designs and new product that comes out there, I think with the productivity can be okay.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Besides that, we're well under 50% of our volume at North Canton. We were at one time above that. Today we're well under that and that will continue to go down according to the plans we have in place, Sam.

George - *Maytag Corporation*

We continue to outsource more there. As you look at the total production the relationship of what's produced in North Canton versus southwest to our total volume there's going to be larger piece that's sourced as well.

Sam Darkatsh - *Raymond James - Analyst*

Second question, although somewhat related. You mentioned lower than expected factory volume. I'm guessing that's entirely at Hoover, since you would have been building inventory ahead of the labor situation, is that correct?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Not entirely correct. We've also taken some down time in other facilities to get the inventory in line in major appliances.

George - *Maytag Corporation*

As we mentioned, indicated with sales softness that we saw in April and May, since that was below what our expectations were that had an impact that we had to adjust volumes in the plant at both Maytag Appliances as well as Hoover.

Sam Darkatsh - *Raymond James - Analyst*

Okay. Because now I'm confused. Because it looks like the April, and from what we're hearing, at least rest of the major appliance industry has pretty robust shipments, at least wholesale shipments. It seems counter to what you're saying this morning. Can you help reconcile that?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Well, our data is through week 20 and if you looked at the first three weeks of May, May is up about 3.5%. So it's still growing. There's no doubt. It's just not growing as fast as it was. The year's up 8 and May is up 3. So what we see is the year over year comparisons getting tougher. Our view is that the business that's most having a problem, and it's probably timing, is refrigeration. And I know people want to know, so I'll just go ahead and answer it. Our laundry business is doing fine. Our cooking business is doing fine. We're about flat in dish and our problem has been refrigeration.

Sam Darkatsh - *Raymond James - Analyst*

Okay. Third question, help us understand what the roles of Tom Briatico and Bill Beer are going to be going forward given the new way you're looking at the two segments.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Well, first of all, Tom and Bill and the staffs that report directly to them at Hoover and major appliances really get eliminated. Now, some of those roles still get filled by people. Tom and Bill will be joining me in an Office of the President. They will not have direct line responsibility for running the businesses, but both of them will have some substantial assignments as we manage through this change. The future in terms of exactly where that lands, I'll tell you is indeterminative at this time. We want to get through this transition period, which is the next four months or so, before that's finalized. We will have an Office of the President and they will both join me here.

Sam Darkatsh - *Raymond James - Analyst*

Okay. Last question before I'll get off, also. If I run some quick numbers, Ralph or George, the 8% operating margin by Q1, are you assuming then that half of the 150 million savings go to the bottom line or is it — how is my math on that with respect to that?

George - *Maytag Corporation*

The 150 million of savings and getting to the 8%, that's a function as to how we look at next year combination of economics or if there's some price degradation that's built into there, there's some wage increases, so it's a net of everything that gets us to the 8%.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Is it roughly half the savings, you think, or half to two-thirds of the savings go to the bottom line?

George - *Maytag Corporation*

Well, all the savings come in and there's assumptions as to what we need to put back into the marketplace from pricing, how we need to deal with the cost structure that's here, there will be wage increases, it's really the net of that. to say that they're separate. To say that they're separate, it's a combination of all that together that gets us to the 8%. So you will not see 150 million. Of course on the assumption 150 million goes to the bottom line and there's no continued price degradation or cost, so there's productivity improvements that we would expect to continue pulling sigma. That's built in there. There's price degradation that's built in there. It's looking at the whole business.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

It's the net of all the good news and bad news that we anticipate for next year. I'd say the biggest element probably is what's going to happen to pricing and we think pricing in general is going to continue down. So we're saying that, if course we will pay our people more, of course benefit costs will go up, of course we'll have some cost savings, so we are hedging that, to be honest with you, but I think it's only appropriate given the environment that we have today that we hedge it.

Sam Darkatsh - *Raymond James - Analyst*

Okay. Thank you for the complete answers, gentlemen. Thank you.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

No problem.

Operator

Our next question comes from the line of Jeff Sprague from Smith Barney.

Jeff Sprague - *Smith Barney - Analyst*

Thanks. Good morning.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Hi, Jeff.

Jeff Sprague - *Smith Barney - Analyst*

I guess just first on one of those points we were just on, I'm just still trying to understand why the top line and majors was weaker and if the AM numbers were up 12.5 in April and we did 3 in May, was that really that much worse than you expected? Can you kind of give us a sense of what you were expecting and what the disconnect between maybe the retail and the wholesale numbers might be that we're looking at?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yeah. Well, the truth is we expected the second quarter to be a lot like the first quarter and we were an up a little over 7. We're going to be up but we are not going to be up 7 is my best guess, now, and that depends on June. We had our expectations of how much we would be up and we're going to fall somewhat short. I know you guys want to talk about appliances but the key to this is still Hoover. This was a very weak quarter. The second quarter was a very weak quarter for Hoover last year. We expected Hoover to be up nicely in terms of operating income and the truth is they're not going to be up in operating income. And so, before you start running the major appliances, you got to run to Hoover first. Okay?

Jeff Sprague - *Smith Barney - Analyst*

So is Hoover losing money in the second quarter?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Don't think so, but they won't make as much as we had hoped.

Jeff Sprague - *Smith Barney - Analyst*

Okay. This issue of the designs affects one of the central elements of this beyond headcount overhead issues. Where are you in kind of rolling out the more cost effective designs and how long does that take to play out?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yeah, a lots of times people want to talk about low cost location or sometimes they're sophisticated enough to talk about sourcing. The truth is, I believe that 80%, more than half of the cost of any major appliance product is in the design of that product. To answer your question directly, we have all new cooking platforms. We think they're as good as anybody in the world in terms of cost effective design. We have a dishwasher design in a factory that we think is as good as anybody in the world from a dishwasher design standpoint. Our new laundry designs, the TL and what we've done with dryer cam that we think is as cost effective as it can be. Some of our older laundry designs are not as cost effective, people have improved on that. When our new refrigeration comes out, particularly the product that's coming out of Reynoso, we think that will be as cost effective as side by side and we think the Daewoo design is as good as it can be. So we're nearly done with that is my answer, nearly done.

Jeff Sprague - *Smith Barney - Analyst*

Yeah.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

And in Hoover, the products that are rolling out this year that we are manufacturing ourselves are quite competitive. The products that we're sourcing, I still believe we've put more costs in there than our trade partners and the consumer is willing to pay for a 449, 459 or $469 vacuum cleaner. They are too high cost.

Jeff Sprague - *Smith Barney - Analyst*

Is part of the issue on Hoover, then, in the quarter that you were somewhat displaced in retail last year and you're just not getting back in the door?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yep, I think that's a fair characterization. We had pretty high hopes for some of these low-end products and their placement and we have not gotten the placements that we expected to get.

Jeff Sprague - *Smith Barney - Analyst*

And is there a message coming back from the customer on why that is?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Price.

Jeff Sprague - *Smith Barney - Analyst*

Simply price, huh?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yeah.

Jeff Sprague - *Smith Barney - Analyst*

And when we think about the 8% margin, that, relative to where the company has been, obviously, doesn't look and feel that good. I mean, just what are your views about the secular profitability potential of this business going forward given kind of all the broad changes that have occurred?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Well, I think if you talk about the vacuum cleaner business and the fact that the low-end is now over 40% of the business, there are clearly less dollars of sales gross margin to be had in the vacuum cleaner business than there were three years ago, two years ago, one year ago. There's going to be less total sales gross margin available to whoever the players are, Dyson or Electrolux or us or Bissell, whoever it is. My view is if you still want to earn good money in vacuum cleaners, you better have a low cost Go To Market model because you're only going to earn so much per unit and there's going to be more units below $100 sold and therefore there's less total dollars. So I think that is a fairly substantial change. Now, I know of course everybody says is Gee, that means the same thing is going to happen in appliances. What I would say is the tendency will be there but the impact will not be nearly as dramatic and here's why.

First of all, the move in floor care involved two dynamics that are very important. One is the product all went to Asia for manufacturing, dramatic change in cost, and it's distributed through mass retail where price is the key to selling it. Not true of a major appliance. It's not all going to go to Asia, the logistics

presents that. Some of it will go to Mexico, so there will be a price shift but not quite as dramatic. And, it's going to be sold through the same retailers that sell it today. Major appliances still have to be sold. They still have to be delivered. They still have to be serviced. All of that counts for a great deal and therefore, although pricing is going to be under pressure, it's not going to be a dramatic shift in price points.

Jeff Sprague - *Smith Barney - Analyst*

We obviously never saw the pure margins on the major business in these last few years but when you look at — let's put '05 aside and say that's still a transition year. We look out at '06, are the margins materially lower in majors than they were say, let's exclude the bubble in '99, but in the mid '90s before things got really frothy?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

I've said before that I think what we need to do is get to double digit margins and that should be a reasonable goal and if we get there we can talk about something else. But let's get to double digits first. I would caution you little about what pure margins and measures are because there's no competitor you're looking at has pure margins and measures. Most people have service in there. Most people have got export or shipping back and forth across regions. That's all we've got is our export business and service in there. So you're seeing major appliance margins like others look at major appliance margins. Those are pure when we show you that segment. Pure as you're going to get. And those margins should go up in spite of price degradation and cost increases. Those margins should go up.

Jeff Sprague - *Smith Barney - Analyst*

Just one last question. Are these headcount moves a positive or a negative to your pension issue? Do you have large severance issues you've got to contend with or does this actually lower the liability by removing this headcount?

George - *Maytag Corporation*

I mean, there's severance issues but as it relates to the pension, there's no significant change plus or minus.

Jeff Sprague - *Smith Barney - Analyst*

Okay. Thanks a lot.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

You're welcome.

Operator

Our next question comes from the line of Laura Champine, Morgan Keegan.

Laura Champine - *Morgan Keegan - Analyst*

Good morning. You mentioned several times that you feel competitive on your product cost side but I'm seeing that in '03 there was a 470 basis point differential between your gross margins and Whirlpool's and it broaden a little bit in Q1. Can you talk to me about what some the structural differences might be to keep you from achieving gross margins in excess of 20%?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yeah, there's so many factors that go in to that. I would tell you that from a pricing and product mix standpoint, we probably are advantaged, not disadvantaged, just by the nature of the brands and where we're positioned. I do think that with regard to procurement costs, we are not as competitive as our largest competitors. They simply buy more. We both have a pretty good process. You could be a point or two difference there, to be honest. Then you have to look at all the structural costs that people think of as manufacturing but are not. Where is warranty? Our warranty costs tend to be higher because of our brands and what people expect.

And logistics is a very big part of this. We have a very expensive method of distributing through RDCs, carrying inventory, touching the product lots of times, shipping trucks that are not full, lots of things that structurally disadvantage us that we need to attack. And part of what this restructuring does is attack some of those. So it's not just about conversion in the factory or parts that you buy or designs, it's about all those other things that go into cost of sales, Laura. And you mentioned early in the call about product costs being reduced by moving product to Mexico and sourcing from Asian sources. Can you talk in the major appliance division and if you can, also, in Hoover, what your goals are in those two categories, Mexico and Asia by the end of this year?

Well, I think you know pretty clearly what we've done in Mexico. We have three plants down there, two of them are component plants, one of them is the refrigeration plant in Reynoso. That's all we've announced. That's all that's in Mexico today. And I think if we do those, we can be pretty competitive. In terms of sourcing, I think you're also aware of our sourcing arrangements, at least the major ones, and that's the Dirutop(ph) Mountain Refrigerators and Samsung produced laundry.

Laura Champine - *Morgan Keegan - Analyst*

What I'm trying to figure out, Ralph, is what is that as a percentage of your total product on the major appliance sales side?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Well, we don't break it out by the two but we have given you a graph and the indication will be at about 17% by next year. So about 17% of the total sales that we will have will be source product by next year.

Laura Champine - *Morgan Keegan - Analyst*

Does that count floor care and does that count Mexico?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

No, that counts floor care. That's third parties building products for us. That does not count Mexico.

Laura Champine - *Morgan Keegan - Analyst*

Okay. Thank you.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

You're welcome.

Operator

Our next question comes from the line of David MacGregor, Longbow Research.

David MacGregor - *Longbow Research - Analyst*

Good morning.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Good morning, David

George - *Maytag Corporation*

Good morning.

David MacGregor - *Longbow Research - Analyst*

Would you talk about that 8% operating margin for the first quarter of '05, what's your assumption about appliance margins at that point? You were 6.6% in the first quarter.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yeah. I think both appliance and floor care margins will both improve. We can't get there unless the appliance margins go up because floor care just doesn't weigh heavily enough in terms of the mix to get us there.

George - *Maytag Corporation*

David, part of is we go to bring in the Hoover brand into it as an SBU ultimately you're not going to be able to really see the two or the call savings really associated with Hoover or to major appliances, so you really see that come in at a blend as the one company we're looking at.

David MacGregor - *Longbow Research - Analyst*

Okay. First quarter is typically a seasonally light quarter for you, so 8% in the first quarter would imply you're thinking that you could do a little bit better than that on a run rate basis by that point. I know Jeff was alluding to this early with his question about 2006, but I'm trying to get a sense of what the momentum is at that point to get better margin performance. Where could you end 2005 at?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

My commitment is 8% for the full year. I just want people to understand, I think we can get there by the first quarter. We

execute this well, we are going to take enough costs out that you do the math and we can get to 8% and if we do better, we do better but lots of things can change between now and the first quarter. It's pretty dynamic.

David MacGregor - *Longbow Research - Analyst*

What are your assumptions in that number for steel and resin prices?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Our assumptions are that it's going to go up but not dramatically. Going to go up from current levels.

David MacGregor - *Longbow Research - Analyst*

Okay. And then just finally, I guess with respect to the appliance business, maybe you could talk about this in terms of the overall model. What changes in terms of your variable cost structure. It looks like the whole 150 is coming out off your fix costs. Is that a correct assumption?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

The vast majority of this, I'm talking about a very, very high percentage, comes out of fix costs. And that is part of the, I don't want to glorify the word strategy, but lowering the break even is really, I think, the key. So that as mix changes, volume changes, we're not as affected dramatically because it is our structural cost that hurt us as we miss a little bit of volume here or there, it doesn't flow through, basically. It's a negative impact. So I'd say you should assume almost all of this is fixed cost.

David MacGregor - *Longbow Research - Analyst*

So your contribution margin shouldn't be changing much here absent any sort of change in your ASPs?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Correct.

David MacGregor - *Longbow Research - Analyst*

Good. Thanks very much, guys, and good luck.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Thank you.

George - *Maytag Corporation*

Thanks.

Operator

Our next question comes from the line of May Campbell, Dorset Management

---

Tony Campbell - *Dorset Management - Analyst*

Hi, this is Tony Campbell. I just would like a little further clarity on your guidance for the year. I am assuming that this guidance assumes that a lower rate of sales that we're seeing in May and in the second quarter for the rest of the year or is that incorrect?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Nope, that's correct.

Tony Campbell - *Dorset Management - Analyst*

Okay. And are we assuming any price increases?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

We are not assuming any additional price increases. We did raise prices April 1st.

Tony Campbell - *Dorset Management - Analyst*

Okay. Thank you very for the clarity.

Operator

Our next question comes from the line of Eric Bosshard, Midwest Research.

Eric Bosshard - *Midwest Research - Analyst*

A couple of questions. First of all on cash flow, you seem to indicate that cash flow wasn't going to change dramatically, despite the fact there's a big non-cash charge and there's lower earnings. Can you help us understand how you accomplish that?

George - *Maytag Corporation*

Sure. As we look at the cash flow for the year, we are assuming that we're going to get the inventories and working capital back in line which frees up the cash. We've already done the pension, the 90 million that we had anticipated, and we expect lower capital expenditures with what we're seeing as well as we consolidate and look at what we're spending now and in Reynoso and in large programs that's come down about 20, 25 million.

Eric Bosshard - *Midwest Research - Analyst*

So pre-pension there would have been 240 million of free cash flow, after pension there's 150 million of free cash flow?

George - *Maytag Corporation*

Rough numbers, yes.

Eric Bosshard - *Midwest Research - Analyst*

Okay. Secondly, in terms of the appliance outlook, Ralph, you indicated that the market is slower than you hoped it to be in the second quarter, still up not up as much. The market share progress you registered in the first quarter, are we seeing any meaningful deviation from that in the second quarter?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yes, I would say the market in the second quarter is not that different than what we expected. We expected to gain some additional share in the second quarter and it's not clear that we're going to gain that share in the second quarter in appliances. But, again, I want people to make sure because you're going to see the numbers here in the second quarter. You got to think about Hoover before you think of appliances as being the specific problem we're dealing with in Q2. Now, the outlook for the rest of the year, as you know, the comparatives in the third and fourth quarter get harder and basically what we're assume is that there's modest, very modest, growth in Q3 and Q4. You get the full year to about a 4% number.

Eric Bosshard - *Midwest Research - Analyst*

Next question, what changed in Hoover now verses 60 days ago in the first quarter call you clearly stated that you thought 2Q profits in Hoover would be flat at worst. What changed in the last 60 day?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Well, we had weaker sales than forecasted in April and weaker sales than forecasted in May. That's exactly what changed.

Eric Bosshard - *Midwest Research - Analyst*

Is that market sales or is that market share erosion?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Probably a little of both, but mostly market share erosion.

Eric Bosshard - *Midwest Research - Analyst*

Okay. And then last question. Within the numbers, you took down full year estimates relatively consensus 20 or 30 cents. Can you give us any color within that of how much of that is expenses related to the restructuring versus what's going on in the core business?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

George?

George - *Maytag Corporation*

The expenses related to the restructuring, we're looking at 2004, the vast majority of the restructure will take place about by $70 million of restructuring in 2004, also with some of the savings and total restructuring charge. Okay, we're looking at roughly $1.00, that we had stated before, roughly 40 cents related to Galesburg.

Eric Bosshard - *Midwest Research - Analyst*

Are there restructuring expenses that go through the P&L outside of those charges?

George - *Maytag Corporation*

There are some restructuring charges.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yes.

George - *Maytag Corporation*

Okay. The vast majority will through the restructuring line. There will be certain costs that will go through normal P&L as well and that's probably 5 million plus.

Eric Bosshard - *Midwest Research - Analyst*

Okay. And then last question within all of this guidance with all of these charges and expenses in this outlook, what is the consideration from the Newton situation implied to this expenses of what you're dealing with now, are any of the numbers with that or once that's resolved, are we going to have another conversation to delineate what the impact of that is?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

We will have another conversation. There's nothing assumed up or down side regarding Newton in these numbers because we just don't know the outcome.

Eric Bosshard - *Midwest Research - Analyst*

I guess my last question is why not wait until Newton is resolved to have conference call?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Well, we originally thought Newton would be resolved on June 1st and it wasn't. And we had planned this restructuring, which involves an awful lot of communications with employees and customers and the truth is we want to get started and to get started we got to involve more of our people and start converting systems and making decisions and dealing with customers and getting teams in place. Days count and I can't tell you when the Newton situation will be resolved. And so there's no reason to wait 30 or 60 or whatever it takes to -- we just don't know when that's going to be resolved. But you are right, our original assumption was that it would be resolved when we scheduled all of this and I decided to go ahead with it because once we start this process we start to save money. And I think that counts. I can't be dependent upon a labor agreement for less than 10% of our business in terms of managing the whole business.

Eric Bosshard - *Midwest Research - Analyst*

This restructuring today, is it something that's been in the works for 90 days, 180 days?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

We've been working on it for a while, yeah.

Eric Bosshard - *Midwest Research - Analyst*

Thank you.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Okay, you're welcome. I do want to say one other thing because we did note in the press release and I'm sure you all saw this, that we have lost our appeal on the Eden lawsuit. We view that as a second quarter issue and all the numbers aren't final, that will cost us about 10 million.

George - *Maytag Corporation*

Yeah.

Operator

Okay, our next question comes from the line of Eric Ribner, Northstar. Please go ahead, sir.

Eric Ribner - *Northstar - Analyst*

Hi, just a quick question on your thinking around keeping the dividend. Do you have any thoughts on that ?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

We're going to keep the dividend. The dividend is not in danger. Cash is not an issue for the Maytag Corporation. Earnings and margins and growth are all very legitimate issues but our cash flow has been excellent. It's good in the years that we report high earnings and low earnings. The years we grow less, we get more out of working capital. We have sufficient cash to fund the pension as we choose, pay down debt and maintain the dividend without question. So that's not at risk in anyway.

Eric Ribner - *Northstar - Analyst*

Thank you.

Operator

We have a followup question from the line of Michael Rehaut, J.P. Morgan. Please go ahead, sir.

Michael Rehaut - *Maytag Corporation - Analyst*

Thanks. A couple of quick things. First of all, I heard you said in May that your appliance business grew 3.5%. Was that appliances or total sales?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Three weeks in May, the industry is up 3.5%.

Michael Rehaut - *Maytag Corporation - Analyst*

Oh, I see.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

That's what I mean to say.

Michael Rehaut - *Maytag Corporation - Analyst*

Okay, so there was not a specific comment on your own - ?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

No.

Michael Rehaut - *Maytag Corporation - Analyst*

Okay. Also, just wanted to confirm that you said that for the rest of this year you're expecting steel and resin to increase moderately. That was baked into your guidance?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yeah. What the guidance assumes is existing steel and resin costs that we're experiencing today, that's what's in our guidance.

Michael Rehaut - *Maytag Corporation - Analyst*

Okay. And lastly, just in terms of the guidance, obviously, you haven't thrown out a solid number for the second quarter. But, working with the math a little bit, it assumed, let's say most of the hit was in the second quarter, you're assuming that the second half is going to come back pretty quickly to even allow you to get to a 2 to 210 number. I was wondering if you could comment on that and specifically as it relates to the timing of the benefits that you're thinking about from the restructuring.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yeah. First of all, our policy has really been not to give specific quarterly guidance but to give annual guidance. That's what we're trying to do. We're basically sticking to that policy. Because there's some uncertainty in timing of what falls in the second and third quarter, both with regard to restructuring and some other matters that we've discussed, it's not quite clear which side of the line they will fall on. But we do expect substantial benefits from this restructuring to begin flowing in the third and the fourth quarters and we think the year is going to come out about where we said.

Michael Rehaut - *Maytag Corporation - Analyst*

With that being said, I mean in terms of the 1100 work force reduction and some of the other actions, can you kind of give us a timeline if at all possible through the rest of this year when those actions will be taken and get some type of idea in terms of the flow through, the benefits?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Some happened today. Many will happen in terms of the restructuring impact on headcounts in the month of June and the vast majority will be done by the end of the third quarter,

although there are some systems and other constraints that things may flop over into Q4.

Michael Rehaut - *Maytag Corporation - Analyst*

Okay, so when you're saying the vast majority, are you referring to the headcount?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yes.

Michael Rehaut - *Maytag Corporation - Analyst*

Okay. And the IT consolidation and some of the other more functional consolidations, is that also mostly will occur by the end of the third quarter?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

No, I would say that's the most likely thing that ends up getting finished before year-end. The systems conversions always tend to be a constraint in these things and the hardest things to get done.

Michael Rehaut - *Maytag Corporation - Analyst*

Okay. Makes sense. Okay, thanks you.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

You're welcome.

Operator

We have a followup question from the line of David MacGregor, Longbow Research. Please go ahead, sir.

David MacGregor - *Longbow Research - Analyst*

Yeah, just looking at the steel industry and the experience there, as they've gone through their labor negotiations, salaried work force reductions were a huge positive in terms of bringing the sides together. I'm just wondering, I realize there's a limit on what you might be able to say on this, but is it your sense that this might actually increase the probability of a settlement and decrease the probability of a disruption?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

I don't know. I'm going to let you guess about that. I don't know.

David MacGregor - *Longbow Research - Analyst*

Okay, that's fair. You had once upon a time talked about strategically aiming the organization toward the top one-third of the respective markets in which you compete. Is that still your goal and if so, what inning in the game are we in there and how quickly do we get to the finish?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

I thought that was a great line. Let me repeat it, our goal is to target, target the top one-third of appliance price points. I think that's where our brands play best. I think that's where innovation works. I think it's where the most growth in dollars will occur, not units but dollars. It's where we ought to play. Now that doesn't mean we play there exclusively. And some people want to say, okay, that means Maytag is only going to play in the top third. Internally, we measure that. We actually publish that. And we've put it up many times on the website.

Nobody seems to pay much attention to it when we talk about it. The real goal is to about have half of our product, half of our product in that top one-third.. The other half is things we need to do for our trade partners and to have a complete line of product and to play to make sure our factories are full. So about half of our product would fall below that, mostly in the middle third, very little in the lower third, mostly in the middle third. So that's really the specific goal that we target. And that's a strategic goal that we're not far from in most of our categories, by the way, we are just about there in each of the categories.

David MacGregor - *Longbow Research - Analyst*

I guess the definition of what represents the top third is coming down as well, is it?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

If you looked at the average, if you looked at the median price, the median price in some categories is going up and that's because of the success of premium products. A couple of examples, premium laundry, which everybody knows about, the average price of laundry has gone up over the last couple of years in this industry because more and more of the sales take place above the 799 price point. Refrigeration, because of the growth in modum(ph) mounts, which will now continue in a shrinkage in top mounts, the average price is, in spite of certain segments going down in price, it's probably up. So I think the whole idea of the industry is to bring enough innovation and things interesting that the consumer that really wants value and is not fully focused on price is willing to pay more. That's certainly what we've tried to do and we've enjoyed pretty good success at that and I think others are enjoying success too.

David MacGregor - *Longbow Research - Analyst*

Great, thanks a lot.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

You're welcome.

Operator

We have another followup question from the line of Michael Rehaut , J.P. Morgan.

Michael Rehaut - *Maytag Corporation - Analyst*

Thanks. Just one quick thing. On Hoover, and I apologize if you addressed this already, but we've talked a lot about the low-end and that basically you feel that you're still price is an issue there and cost structure, et cetera. On the high-end, are you also experiencing any problems with sales volume, actual versus expected and, correct me if I'm wrong, but I believe you also mentioned that in the last couple of quarters you've also lost share on the high-end. I was wondering if you could address that?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

I would love to correct you, but I can't because we have lost share on the high-end. The truth is we've had a couple competitors who have pretty elegant and good product out there, Dyson and Electrolux, who are doing quite well at price points even above where we used to sell, 299 and 399. And the good news is there are customers, if you have a compelling product and a marketing story around it, are more than willing to pay for a vacuum cleaner they expected to keep for years that does a better job. Our product that competes at those price points will be out toward the end of the year this year in Hoover and we think that will fulfill a major need that we have in our product portfolio. But right now, we are just not very competitive given the product that we're competing with because it looks like the traditional vacuum cleaner product, although it functions very, very well, it's hard to get that story told in mass retail.

Michael Rehaut - *Maytag Corporation - Analyst*

Right. So then in terms of low-end versus high-end, I guess the fair to say that most of the problems here on the low-end but the high-end is hurting as well in the second quarter?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yes, that's fair.

Michael Rehaut - *Maytag Corporation - Analyst*

Okay. Thank you.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Maybe one more question, operator.

Operator

Ladies and gentlemen, as a reminder to register for a question press the one, four. Our next question comes from the line of Jeff Birchill, Polar.

Jeff Birchill - *Polar - Analyst*

Hi. I just had a quick question about the inventory versus the sales problem, just sort of in the press release. Is the inventory the problem that you referenced on the input side or is it inventory in the channel somewhere? Could you just give me some clarification on that, please?

George - *Maytag Corporation*

This was a internal inventory, okay, as we saw sales softness from what we expected in April and May. As we had talked, coming out with first quarter, we had some overhang of inventory. We had planned on starting to pull that down since we saw some sales softness, that inventory was not coming down, therefore we had to reduce manufacturing below what we had anticipated in the second quarter to keep inventory levels in line and start bringing those down and that's both reducing line rates and having to take some days out on the factory.

Jeff Birchill - *Polar - Analyst*

Okay. So the internal inventory inside the company is actually the problem, is it fixed now, is that a short-term thing or is long-term thing?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

It's not a long term it's short-term. We will manage it and we'll take downtime to adjust to what we need to to have our inventories inline. We are basically on track to do that in the second quarter so we have the second quarter closer to where we think we need to be.

George - *Maytag Corporation*

We still will be taking inventories levels down in the third and fourth quarter to get back to our target levels which is part of the free cash flow that we had talked about.. Okay. Year-end is typically is the low point for our inventories and we have higher inventories typically in the second quarter because of seasonality for the refrigeration so that's there. We are on track for what we are intending to do but, again, inventories will be coming down in the back half of the year.

Jeff Birchill - *Polar - Analyst*

And since you mentioned refrigeration, in the preamble you sorted cited that as on the appliance side somewhere where you had seen a bit of a sales fall. Is there some industry trend you can point to or is it just bad product mix that you guys have out there or something?

Ralph Hake - *Maytag Corporation - Chairman & CEO*

No, well I think if you talk to all the manufacturers, the refrigeration season is usually kicked in by now and the truth is compared to last year that's the category that's down for the industry. And it hasn't happened.

Jeff Birchill - *Polar - Analyst*

Okay. So, that's fair, thanks.

Ralph Hake - *Maytag Corporation - Chairman & CEO*

Yeah. Okay. We thank you for joining us on short notice. I think you have a pretty good understanding, given your questions, of what we're trying to do here with this restructuring. It is a structural change in the cost base of the Maytag Corporation, targeted largely at reducing our breakeven and our fixed cost and I think we will actually improve from a customer and consumer and certainly from a customer value standpoint our relative position in the industry by going through this. I have ever confidence we can execute it. We expect to get it behind us quickly but I think it's something that we need to do to improve our relative position and take care of our customers. Thank you very much.

Operator

Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.

FINAL TRANSCRIPT

MYG - Maytag Conference Call to Discuss Major Restructuring

EXHIBIT 5

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

ORIGINAL

DYSON TECHNOLOGY LTD. and)
DYSON, INC.,)
)
Plaintiffs,) Civil No. 05-434-GMS
vs.)
)
Maytag Corporation,)
)
Defendant.)

\- - - - -

THE VIDEOTAPED DEPOSITION OF DAVID BAKER
TUESDAY, NOVEMBER 21, 2006

\- - - - -

The videotaped deposition of DAVID BAKER, called by the Plaintiffs for examination pursuant to the Federal Rules of Civil Procedure, taken before me, the undersigned, Charles A. Cady, Registered Merit Reporter and Notary Public within and for the State of Ohio, taken at the Crowne Plaza Hotel, Akron, Ohio, commencing at 8:12 a.m., the day and date above set forth.

THE NEXT TWENTY-FIVE PAGES

ARE REDACTED IN THEIR

ENTIRETY

DAVID BAKER

THE STATE OF OHIO,) SS:
COUNTY OF CUYAHOGA.)

I, Charles A. Cady, a Notary Public within and for the State of Ohio, duly commissioned and qualified, do hereby certify that DAVID BAKER, was first duly sworn to testify the truth, the whole truth and nothing but the truth in the cause aforesaid; that the testimony then given by him was by me reduced to stenotypy in the presence of said witness, afterwards transcribed on a computer/printer, and that the foregoing is a true and correct transcript of the testimony so given by him as aforesaid.

I do further certify that this deposition was taken at the time and place in the foregoing caption specified. I do further certify that I am not a relative, counsel or attorney of either party, or otherwise interested in the event of this action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Cleveland, Ohio, on this 22nd day of November, 2006.

Charles A. Cady

Charles A. Cady, Notary Public
within and for the State of Ohio
My Commission expires November 3, 2009.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

DYSON TECHNOLOGY LTD. and DYSON, INC.,	)	
	)	
Plaintiffs,	)	Civil No. 05-434-GMS
vs.	)	
	)	
Maytag Corporation,	)	
	)	
Defendant.	)	

\- - - - -

THE VIDEOTAPED DEPOSITION OF DAVID BAKER
TUESDAY, NOVEMBER 21, 2006

\- - - - -

The videotaped deposition of DAVID BAKER, called by the Plaintiffs for examination pursuant to the Federal Rules of Civil Procedure, taken before me, the undersigned, Charles A. Cady, Registered Merit Reporter and Notary Public within and for the State of Ohio, taken at the Crowne Plaza Hotel, Akron, Ohio, commencing at 8:12 a.m., the day and date above set forth.

THE NEXT EIGHTY PAGES ARE REDACTED IN THEIR ENTIRETY

EXHIBIT 6

IN THE UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF DELAWARE

ORIGINAL

DYSON TECHNOLOGY LIMITED and DYSON, INC.,	)	
Plaintiffs,	)	
vs.	)	No. 05-434-GMS
MAYTAG CORPORATION,	)	
Defendant.	)	

Deposition of SUSAN H. GOLDSMITH, called as a witness herein, pursuant to the applicable provisions of the Federal Rules of Procedure governing the taking of depositions, taken before Shannon M. Frey, CSR No. 084-002277, RMR, CRR, on November 17, 2006, at 10:15 a.m., at 180 North Stetson Avenue, Suite 4900, Chicago, Illinois.

DIGITAL EVIDENCE GROUP
1111 16th Street, NW Suite 410
Washington, DC 20036
(202) 232-0646

2764c3f6-a7f3-4829-8635-ec4b85319636

THE NEXT FOUR PAGES ARE REDACTED IN THEIR ENTIRETY

EXHIBIT 7

EXHIBIT REDACTED IN ITS ENTIRETY

EXHIBIT 8

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

DYSON TECHNOLOGY LIMITED, and DYSON, INC.,	)	
Plaintiffs,	)	
vs.	)	No. 05-434-GMS
MAYTAG CORPORATION,	)	
Defendant.	)	

HIGHLY CONFIDENTIAL

The videotape deposition of **CAROLINE ERRINGTON,** called by the Defendant for examination, taken pursuant to the Federal Rules of Civil Procedure of the United States District Courts, pertaining to the taking of depositions, taken before CHARLENE J. THOMAS, a Notary Public within and for the County of Cook, State of Illinois, Certified Shorthand Reporter and Registered Professional Reporter of said state, taken at 35 West Wacker Drive, Chicago, Illinois, on the 3rd day of November, 2006, commencing at the hour of 9:00 o'clock a.m.

THIS PAGE REDACTED

IN ITS ENTIRETY

THIS PAGE REDACTED

IN ITS ENTIRETY

THIS PAGE REDACTED

IN ITS ENTIRETY

EXHIBIT 9

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

DYSON TECHNOLOGY LIMITED, and DYSON, Inc., Plaintiffs,	
vs.	No. 05-434-GMS
MAYTAG CORPORATION, Defendant.	

HIGHLY CONFIDENTIAL

The videotape deposition of **DOUG H. KELLAM,** called by the Defendant for examination, taken pursuant to the Federal Rules of Civil Procedure of the United States District Courts, pertaining to the taking of depositions, taken before CHARLENE J. THOMAS, a Notary Public within and for the County of Cook, State of Illinois, Certified Shorthand Reporter and Registered Professional Reporter of said state, taken at 35 West Wacker Drive, Conference Room 47-G, Chicago, Illinois, on the 4th day of December, 2006, commencing at the hour of 10:12 o'clock a.m.

THIS PAGE REDACTED

IN ITS ENTIRETY

THIS PAGE REDACTED

IN ITS ENTIRETY

THIS PAGE REDACTED

IN ITS ENTIRETY